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CHRYSLER CORPORATION LOAN GUARANTEE ACT OF 1979

HEARINGS

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

NINETY-SIXTH CONGRESS

FIRST SESSION

ON

S. 1965

CHRYSLER CORPORATION LOAN GUARANTEE ACT OF 1979

S. 1937

TO AUTHORIZE EMERGENCY LOAN GUARANTEES TO THE CHRYSLER CORPORATION

PART 1

SEPTEMBER 24 AND 25, 1979

Printed for the use of the
Committee on Banking, Housing, and Urban Affairs

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CHRYSLER CORPORATION LOAN GUARANTEE ACT OF 1979

WEDNESDAY, NOVEMBER 14, 1979

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, D.C.

The Committee met at 10:08 a.m., in room 5302, Dirksen Senate Office Building, Senator William Proxmire (chairman of the committee) presiding.

Present: Senators Proxmire, Cranston, Stevenson, Morgan, Riegle, Sarbanes, Tsongas, Garn, Tower, Heinz, Armstrong, and Lugar.

Also present: Senators Levin, Weicker, Eagleton, Bayh, and Javits; and Congressmen Brodhead, Paul, Gramm, Cheney, and Hillis.

OPENING STATEMENT OF CHAIRMAN PROXMIRE

The CHAIRMAN. The committee will come to order.

Today the Committee on Banking, Housing, and Urban Affairs begins 6 days of hearings on legislation to provide loan guarantees to the Chrysler Corp.

We have a great deal of work to do in these 6 days. There will be both morning and afternoon hearings on most of those days. We will be hearing from about 50 different witnesses, including Members of Congress, the Secretary of the Treasury, the head of the Chrysler Corp., mayors and Governors, accounting and investment banking firms, and representatives of other parties with a direct interest in Chrysler's financial future, that is, banks, dealers, suppliers, and the labor union.

The committee is under strong pressure from two directions. First, we are being pushed to act rapidly and report out this legislation as soon as possible. The drive is on to pass a bill before the end of this session—even though there is no real evidence that Chrysler will collapse if Federal loan guarantees are not authorized by the end of December.

The latest information we have, the estimate is they will be able to sustain operations at least through the end of the first quarter of next year.

Second, in the opposite direction, the committee has an obligation to give full, detailed, and careful consideration to every aspect of the proposed legislation, including:

The provisions of the bills pending before us;

The feasibility of the Chrysler financial recovery plan;

The viability of the Chrysler Corp. over the long term;

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And the implications of a substantial Federal financial involvement in Chrysler for competition and for the efficient operation of our economy.

While we should not do anything to hold up the bill, we do have to take the time needed to explore these important issues.

The committee has been told over and over again that we have to give Federal loan guarantees to Chrysler because the costs of not doing this would be astronomical. The figures then cited ranges up to 600,000 jobs lost, $10 billion in cost to the Federal budget, and all of Chrysler's facilities closed forever.

Interestingly enough, the people who produced those figures that these represent, they testified in October and said this is not going to happen.

In reality, the impact of a Chrysler collapse would never be so great, nor would it be permanent. In fact, the Secretary of the Treasury is now using a more conservative estimate—a temporary loss of 75,000 to 100,000 jobs, $2.75 billion in lost revenues in the first 2 years—and in my judgment, that is too high.

An editorial in Monday's New York Times raises some important questions about these figures and the significance attached to them. Let me read some excerpts from that editorial:

> Assume Chrysler did go out of business. Why would the Treasury lose $2.75 billion? The company's demise would not diminish the demand for cars. If Americans replace their Chrysler cars with Fords and Pontiacs, Treasury revenues would actually rise. While it is losing money, Chrysler pays no Federal income taxes; it will be writing off losses against taxes for years. Its profitable competitors, however, would pay full taxes on the cars they sell.
>
> What then about those 100,000 Chrysler jobs? Well, American unemployment last month rose by 200,000 workers. No $3 billion program has been offered them, nor anything comparable for the 6.2 million Americans currently without work. What makes some jobs worthier than others?

That is the end of the editorial.

The fact is, of course, that no one wants to see jobs lost. And no one likes to see companies fail. But why should some companies be worthier than others?

We let 7,000 companies fail last year; we didn't bail them out. Now we are being told that if a company is big enough, if it's the 10th largest corporation in the country, we can't let it go under. Then how big is big enough to not be allowed to fail? Where do we draw the line?

What have not been measured are the costs of bailing out Chrysler, because they are hidden, they are not conspicuous, you cannot be precise on them. But what happens if we devote $1.5 billion in credit resources to do this? It is easier to measure what does happen than what does not happen, even though the latter may be more significant.

It is impossible to know how many businesses will not get loans they need because Chrysler gets a Federal guarantee, how many potential homebuyers will not get mortgages, how many cities will have trouble floating bond issues. It is impossible to calculate accurately the cost in terms of lost efficiency in the economy.

If we give Chrysler a $1.5 billion loan guarantee today, then how can we say no if they continue to falter and come back for more tomorrow? I don't see how we can possibly say no. If we are going to argue this primarily on the basis of saving jobs, then in the

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future if Chrysler doesn't do as well, then we have not only the jobs at stake, but $1.5 billion of the Federal Treasury.

Then it seems to me that under those circumstances it will be an almost unanimous decision by the Congress to provide further assistance to Chrysler. Let's make no mistake. Unless Chrysler is able to make it, we are going to be in it for good.

And it is impossible to foresee the impact of this on the automobile industry and other large industries if we have one of the three major companies backed by $1.5 billion in guarantees by Uncle Sam, while the other two are borrowing at 15 percent and trying to survive a declining market.

We must face the possibility, even the probability, that if we give loan guarantees to Chrysler today, we may well have Ford on our doorstep tomorrow. Under the circumstances, there is no way we could avoid giving aid to Ford at all.

I think we need to realize that the potential consequences of our actions here for the industry and for the economy are immense.

I have other things I would like to say, but so do other Members of the Senate. And I am very anxious to hear from them. I have had a chance to look at some of your statements and I am very, very impressed. I think these are some of the best statements on both sides of this issue I have heard in a long time.

I am looking forward to this morning. It is certainly not just a routine situation in which people just come in and express their views. I can see that a great deal of thought has gone into these statements, and I welcome them.

Senator Garn?

OPENING STATEMENT OF SENATOR GARN

Senator GARN. Thank you, Mr. Chairman.

During the next several days, the Banking Committee will receive testimony about the adverse financial plight of the Nation's 10th largest corporation. It is unfortunate that the Committee will sit here as a surrogate board of directors, reviewing the apparent failure of a company's management, workers, and creditors to maintain the company's fiscal health and deciding whether Federal financial assistance should be provided to this element of our private enterprise system.

As a firm believer and advocate of private enterprise, I am philosophically opposed to Government bailouts of businesses, just as I am opposed to burdensome and unnecessary Government regulations imposed on businesses. If we do not allow some businesses to fail, we threaten the diversity and relative strength of our economic system, which has successfully promoted the most efficient use of our Nation's economic resources for the past 200 years.

Having viewed firsthand the Government's involvement in the financial affairs of New York City over the past 5 years, I am particularly skeptical of the administration's assurances that a Chrysler loan guarantee program with all of the caveats included in the New York City financial aid legislation will be successful. I fear that approving loan guarantees to Chrysler may lead us to another, seemingly endless financial aid to a fiscally ill patient, like New York.

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Or, even worse, by having the Federal Government involved in the affairs of a major automaker, we may end up with a new type of Government-designed automobile, with five wheels and the driver's seat in the trunk of the car.

While I am concerned about whether the Government should assume any role in Chrysler's affairs, I realize that even without any direct Government involvement, the inability of Chrysler to survive as a viable corporation has obvious practical effects on Government policies and expenditures.

For example, if Chrysler declares bankruptcy, Government would provide substantial unemployment and pension benefits under existing Federal programs to thousands of Chrysler employees. The Treasury Department estimates that a Chrysler shutdown would cost $2.75 billion in 1980 and 1981 in lost revenues and added welfare costs. Because of its current financial plight and also owing to general economic circumstances, Chrysler employment has already been reduced by approximately 18,000 workers this year.

Because of my concerns about the effects of Chrysler's possible demise on unemployment, the national economy, and the Government's involvement and interest in insuring the health of the economy and the public good of its citizens, I take my place among this quasi-board of directors, to review skeptically and carefully the proposals placed before us. In addition to questioning the appropriateness of any Government aid to Chrysler, I intend to ask the committee's witnesses about: the need for Federal assistance; Chrysler's assumptions of increased profits and market share in the next several years; union, dealer, and supplier efforts to assist the corporation; and the costs to Chrysler of unnecessary Government regulations.

It is unfortunate that we have to discuss these legislative proposals and, while a date for a markup session has already been established, I believe they should be reviewed thoroughly, without any unnecessary rush to action.

While I start out philosophically opposed to bailouts of any businesses in general, I do think it is necessary for me to look very critically and very carefully at this aid package and examine its practical effects and the effects if we do not approve it, before I come to any final conclusions on how I will vote.

There are a lot of questions left to be answered. Chairman Proxmire and I read an 18-page letter. We have had answers to some of those questions. We have certainly not had answers to all of them. I think some of the assumptions that Chrysler makes are suspect and in the area of wishful thinking, such as a 4-percent profit return in good times. They have only earned 4 percent profit in 4 out of the last 25 years.

Their assumptions on their increase in market share is critical to our determination, and the estimate that they are going to have a 2-percent increase in market share—I think we are going to have to look very deeply into where they get the figures, why they feel that is a reasonable figure to come up with.

So I look forward to the hearings over the next several days. I hope we can have our questions adequately answered with some very detailed factual information.

Thank you, Mr. Chairman.

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The CHAIRMAN. I would like to put in the record at this point the editorial of the New York Times entitled "Weeping for Chrysler"; the Wall Street Journal, "Chrysler Nonsolution"; Business Week, "The Open Treasury Door"; Chicago Tribune, "Carter Chrysler Loan Proposal Only Generates Questions."

[Copies of the bills under consideration at this hearing, and of the newspaper articles referred to, follow:]

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II

96TH CONGRESS
1ST SESSION

S. 1965

Entitled "Chrysler Corporation Loan Guarantee Act of 1979".

IN THE SENATE OF THE UNITED STATES

NOVEMBER 1 (legislative day, OCTOBER 15), 1979

Mr. RIEGLE (by request) introduced the following bill; which was read twice and referred to the Committee on Banking, Housing, and Urban Affairs

---

A BILL

Entitled "Chrysler Corporation Loan Guarantee Act of 1979".

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

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TITLE I

SEC. 101. DEFINITIONS.

(a) This Act may be cited as the "Chrysler Corporation Loan Guarantee Act of 1979".

(b) For purposes of this Act, the following terms shall have the following meanings:

(i) "Borrower" means Chrysler Corporation, or any of its subsidiaries or affiliates, or any other entity the Secretary may designate from time to time which borrows funds for the benefit or use of the corporation.

(ii) "Corporation" means Chrysler Corporation and its subsidiaries and affiliates.

(iii) "Financing plan" means the financing plan required pursuant to section 102(c); in each case, as revised in accordance with section 103(a)(iv).

(iv) "Fiscal year" means the fiscal year of the corporation.

(v) "Operating plan" means the plan required pursuant to section 102(b), as revised in accordance with section 103(a)(iv).

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(vi) "Persons with an existing economic stake in the health of the corporation" means banks, financial institutions, and other creditors, suppliers, dealers, stockholders, labor unions, employees, management, State, local, and other governments, and others directly deriving benefit from the production, distribution, and sale of products of the corporation.

(vii) "Secretary" means the Secretary of the Treasury.

SEC. 102. AUTHORITY FOR LOAN GUARANTEES; FINDINGS FOR COMMITMENTS.

Subject to the provisions of this Act, the Secretary, on such terms as he deems appropriate, may make commitments to guarantee loans to a borrower only if, at the time the commitment is issued, the Secretary determines that—

(a) the commitment is needed to enable the corporation to continue to furnish goods or services, and failure to meet this need would adversely and seriously affect the economy, or employment in the United States, or any region thereof, or competition in the automobile industry in the United States;

(b) the corporation has submitted to the Secretary a satisfactory operating plan (including budget and cash flow projections) for the 1980 fiscal year and the next succeeding three fiscal years demonstrating the

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ability of the corporation to continue operations as a going concern in the automobile business, and after December 31, 1983, to continue such operations without additional guarantees or other Federal financing; and the Secretary has received such assurances as to the feasibility of the operating plan as he may require;

(c) the corporation has submitted to the Secretary a satisfactory financing plan to meet the financing needs of the corporation as reflected in the operating plan for the period covered by such plan, which includes an aggregate amount of nonfederally guaranteed assistance of at least $1,500,000,000—

(i) from financial commitments or concessions from persons with an existing economic stake in the health of the corporation in excess of their outstanding commitments or concessions as of October 17, 1979: *Provided*, That to the extent practicable, at any point the amounts of commitments or concessions obtained under this subsection which have been used and not repaid as a proportion of total commitments and concessions obtained under this subsection, shall not be less than the proportion of principal amount of guarantees issued and outstanding under this Act to the

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total principal amount of guarantees committed by the Secretary;

(ii) from capital to be obtained through merger, sale of securities, or otherwise after October 17, 1979; and

(iii) from cash to be obtained from the disposition of assets of the corporation after October 17, 1979;

(d) to the extent practicable, commitments consistent with the stakes of persons with an existing economic stake in the health of the corporation have been made; and

(e) the Secretary has received adequate assurances as to the availability of all financing contemplated by the financing plan and as to its adequacy (taking into account the amount of guarantees to be issued) to meet all the corporation's projected financing needs during the period covered by the financing plan.

SEC. 103. FINDINGS: EFFECT OF DETERMINATION: GUARANTEE FEE.

(a) NECESSARY FINDINGS FOR ISSUANCE.—Guarantees may be issued only pursuant to commitments. The terms of any commitment shall provide that a guarantee may be issued under this title only if at the time the guarantee is issued, the Secretary determines that—

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(i) credit is not otherwise available to the corporation under reasonable terms or conditions sufficient to meet its financing needs as reflected in the operating plan;

(ii) there is a reasonable prospect of repayment of the loan to be guaranteed in accordance with its terms;

(iii) the loan to be guaranteed bears interest at a rate determined by the Secretary to be reasonable which shall not be less than the current average yield on outstanding obligations of the United States with remaining periods to maturity comparable to the average maturity of such loan;

(iv) the operating plan and the financing plan of the corporation continue to meet the relevant standards set forth in section 102 or appropriate revisions to such plans (including extensions of such plans to cover the then current four-year period) have been submitted to the Secretary to meet such standards; the corporation is in compliance with such plans; and the Secretary has received such assurances as to the feasibility of such plans and the corporation's compliance therewith as he may require;

(v) the corporation has agreed for as long as guarantees issued under this title are outstanding (A) to have prepared and submitted on or before the thirtieth

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day preceding each fiscal year beginning after December 31, 1980, a revised operating plan and financial plan covering the four-year period commencing with such fiscal year which meets the relevant standards of section 102, and (B) to prepare and deliver to the Secretary within one hundred twenty days of the end of each fiscal year, an analysis reconciling its actual performance for that fiscal year with the operating plan and the financial plan for that fiscal year; and

(iv) the borrower is in compliance with the terms and conditions of the commitment to issue the guarantees required by the Secretary pursuant to section 104(b) except to the extent that such terms and conditions are modified, amended or waived by the Secretary.

(b) EFFECT OF DETERMINATION.—Any determination by the Secretary that the conditions set forth in section 102, 103(a), 104(b), or 107(f) have been met shall be conclusive, such determination to be evidenced by the making of the guarantee for which such determination is required. The validity of any guarantee made by the Secretary shall be incontestable in the hands of a holder, except for fraud or material misrepresentation on the part of such holder. The Secretary is authorized to determine the form in which any guarantee made under this Act shall be issued.

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(c) GUARANTEE FEE.—The Secretary shall prescribe and collect no less frequently than annually a guarantee fee in connection with each guarantee under this Act. Such fee shall be at least one-half of 1 per centum per annum on the outstanding principal amount of loans guaranteed pursuant to this Act computed daily. In addition, the Secretary shall be authorized to negotiate any terms he deems appropriate to compensate adequately the United States for the risk it assumes in issuing guarantees under this Act. All amounts collected by the Secretary pursuant to this subsection shall be deposited in miscellaneous receipts of the Department of the Treasury.

SEC. 104. REQUIREMENTS APPLICABLE TO LOAN GUARANTEES.

(a) MATURITY OF GUARANTEED LOANS.—Loans guaranteed under this Act shall be payable in full not later than December 31, 1990, and the terms of such loans shall provide that they cannot be amended, or any provision waived, without the Secretary's consent.

(b) TERMS AND CONDITIONS.—(i) Any commitment to issue guarantees entered pursuant to this Act shall contain all the affirmative and negative covenants and other protective provisions that the Secretary determines are appropriate. The Secretary shall require security for the loans to be guaranteed under this Act, subordination of existing loans to the

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corporation to the loans to be guaranteed, and prohibition of the payment of dividends on any common or preferred stock issued by the corporation, unless he determines waiver of any such requirement is necessary to facilitate the ability of the corporation or any borrower to obtain financing, and he determines that, despite the waiver, there is a reasonable prospect of repayment of the loans guaranteed under this Act.

(ii) If the Secretary determines that the inability of the corporation to obtain credit without a guarantee under this Act is the result of a failure on the part of management to exercise reasonable business prudence in the conduct of the affairs of the corporation, the Secretary shall require before issuing any guarantee to the corporation that the corporation make such management changes as the Secretary deems necessary to give the corporation a sound managerial base.

SEC. 105. POWERS AND DUTIES.

(a) SECRETARY; INSPECTION OF DOCUMENTS.—The Secretary is authorized to inspect and copy all accounts, books, records, and transactions of the corporation and any other borrower for which an application for a guarantee to be issued under this Act has been made.

(b) GENERAL ACCOUNTING OFFICE; AUDIT; REPORT TO SECRETARY AND CONGRESS.—The General Accounting Office is authorized to make a detailed audit of all accounts, books, records, and transactions of any borrower with respect

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to which an application for a guarantee under this Act has been made. The General Accounting Office shall report the results of such audit to the Secretary and to the Congress.

SEC. 106. MAXIMUM OBLIGATION.

The outstanding principal amount of loans guaranteed by the Secretary shall not exceed at any one time $1,500,000,000.

SEC. 107. PROTECTION OF GOVERNMENT'S INTEREST.

(a) SECRETARY'S ENFORCEMENT AUTHORITY.—The Secretary shall take such action as may be appropriate to enforce any right accruing to the United States or any officer or agency therefor as a result of the issuance of guarantees under this Act.

(b) RECOVERY RIGHTS; SUBROGATION.—The Secretary shall be entitled to recover from the borrower, or any other person liable therefor, the amount of any payments made pursuant to any guarantee entered into under this Act; and upon making any such payment, the Secretary shall be subrogated to all the rights of the recipient thereof.

(c) OTHER REMEDIES.—The remedies provided in this Act shall be cumulative and not in limitation of or substitutions for any other remedies available to the Secretary or the United States.

(d) INSTITUTION OF FEDERAL PROCEEDINGS.—The Secretary may bring action in any United States district

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court or any other appropriate court to enforce compliance with the provisions of the Act or any agreement related thereto and such court shall have jurisdiction to enforce such compliance and enter such orders as may be appropriate.

(e) NO GUARANTEES OF TAX-EXEMPT LOANS.—A loan shall not be guaranteed if the income from such loan is excluded from gross income for purposes of chapter 1 of the Internal Revenue Code of 1954, as amended, or if the guarantee provides significant collateral or security to other obligations, the income from which is so excluded.

(f) FEDERAL PRIORITY WAIVER.—The Secretary is authorized to waive, wholly or partially, the priority of the United States established under section 3466 of the revised statutes (31 U.S.C. 191) with respect to any debt owned to the United States by the corporation or any borrower with respect to any guarantees issues under this Act, to the extent he deems such waiver is necessary to facilitate the ability of the corporation or any borrower to obtain financing as reflected in the financing plan: *Provided*, That he determines that, despite such waiver, there is a reasonable prospect of repayment of the loans guaranteed under this Act. A waiver under this subsection may not by its terms subordinate the claims of the United States under this Act to those of any other creditor of the corporation or any borrower.

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(g) SEVERABILITY.—If any provision of this Act is held to be invalid, or the application of such provision to any person or circumstance, is held to be invalid by a court of competent jurisdiction, the remainder of this Act, or the application of such provision to persons or circumstances other than those as to which it is held invalid, shall not be affected thereby.

SEC. 108. REPORTS TO CONGRESS; RECOMMENDATIONS.

The Secretary shall submit to the Congress annually a full report of his activities under this Act.

SEC. 109. AUTHORIZATION OF APPROPRIATIONS.

(a) There are authorized to be appropriated beginning October 1, 1979, and to remain available without fiscal year limitation, such sums as may be necessary to carry out this Act.

(b) Any other provision of this Act to the contrary notwithstanding, the authority of the Secretary to make any guarantee under this Act shall be limited to the extent such amounts are provided in advance in appropriations Acts.

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II

96TH CONGRESS
1ST SESSION

S. 1937

To authorize emergency loan guarantees to the Chrysler Corporation.

IN THE SENATE OF THE UNITED STATES

OCTOBER 24 (legislative day, OCTOBER 15), 1979

Mr. RIEGLE (for himself, Mr. LEVIN, Mr. BAYH, Mr. DANFORTH, Mr. EAGLETON, Mr. NELSON, Mr. MATHIAS, and Mr. MCGOVERN) introduced the following bill; which was read twice and referred to the Committee on Banking, Housing, and Urban Affairs

---

A BILL

To authorize emergency loan guarantees to the Chrysler Corporation.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SHORT TITLE

SECTION 1. This Act may be cited as the "Chrysler Corporation Emergency Loan Guarantee Act".

FINDINGS AND PURPOSE

SEC. 2. (a) The Congress hereby finds that—

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(1) the domestic automotive industry is one of the most important segments of the economy of the United States;

(2) the jobs of millions of Americans depend upon the economic viability of the automotive industry;

(3) such industry provides work for automobile management and production employees, automobile dealers, employees of parts and equipment suppliers, and the owners and employees of many other related businesses;

(4) the increasing dependence of the United States on imported petroleum has forced the development of a national energy policy which requires a reduction in the consumption of gasoline;

(5) the continued and expanded domestic production of safe and fuel-efficient automobiles is necessary to the implementation of such national energy policy;

(6) the Chrysler Corporation, the Nation's third largest automobile manufacturer, is suffering severe losses and, without assistance from the Federal Government, the Chrysler Corporation faces financial collapse;

(7) such collapse would mean that thousands of employees would lose their jobs and the Federal Government and the many communities affected by the

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closing of Chrysler Corporation facilities would suffer a loss of revenue and an increase in expenditures;

(8) such collapse would also have a significant impact on the economy of the United States; and

(9) it is in the public interest for the Federal Government to assist in maintaining the jobs and productive capability of the Chrysler Corporation since such assistance will help to maintain a strong and competitive domestic automobile industry.

(b) It is the purpose of this Act—

(1) to prevent the severe impact on the economy of the United States and regions thereof that would result from the collapse of the Chrysler Corporation;

(2) to facilitate the return of the Chrysler Corporation to a position of financial viability;

(3) to maintain a strong and competitive domestic automotive industry.

ESTABLISHMENT OF THE BOARD

SEC. 3. There is established an Emergency Loan Guarantee Board (hereinafter referred to as the "Board") composed of the Secretary of the Treasury, who shall be the Chairman of the Board, the Secretary of Labor, and the Secretary of Commerce. Decisions of the Board shall be made by majority vote.

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AUTHORITY

SEC. 4. The Board, on such terms and conditions as it deems appropriate, may guarantee, or make commitments to guarantee, lenders against loss of principal or interest on loans which are guaranteed under this Act and may enter into such other contracts as it deems necessary to carry out the provisions of this Act.

LIMITATIONS AND CONDITIONS

SEC. 5. (a) Subject to section 6, the Board may make a guarantee under this Act only if—

(1) the Board finds that (A) the loan is needed to enable the Chrysler Corporation (hereinafter referred to as the "enterprise") to continue to furnish goods or services and failure to meet this need would adversely and seriously affect the economy of or employment in the Nation or any region thereof, (B) credit is not otherwise available to the enterprise under reasonable terms or conditions, and (C) the prospective earning power of the enterprise, together with the character and value of the security pledged, furnish reasonable assurance that it will be able to repay the loan within the fixed time, and afford reasonable protection to the United States; and

(2) the lender certifies that it would not make the loan without such guarantee.

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(b) A loan guaranteed under this Act shall be for a term determined to be reasonable by the Board, but not to exceed ten years.

(c) A loan guaranteed under this Act shall bear interest at a rate determined by the Board, taking into account the reduction in risk afforded by the loan guarantee and rates charged by lending institutions on otherwise comparable loans.

(d) The Board, in connection with each loan guaranteed under the Act, shall prescribe and collect a guarantee fee that is sufficient to compensate the Government for all of the Government's administrative expense related to the guarantee.

(e) The Board shall ensure that the Government, to the maximum extent feasible, is compensated for the risk assumed in making a guarantee under this Act. Such compensation may be provided through one or more of the following means:

(i) a guarantee fee in addition to the fee required by section 5(d) of this Act; and

(ii) other methods deemed appropriate by the Board.

EMPLOYEE STOCK OWNERSHIP PLAN REQUIREMENTS

SEC. 6. In order to be eligible for the loan guarantee provided under this Act, the enterprise (referred to in this

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section as the "employer") shall establish in writing an employee stock ownership plan—

(1) which satisfies the requirements of section 4975(e)(7) of the Internal Revenue Code of 1954, and which acquires qualifying employer securities (as described in section 4975(e)(8) of such Code using all or a portion of the proceeds of a guaranteed loan provided for in this Act,

(2) which is administered by a committee consisting of—

(A) two representatives of the employer,

(B) two representatives of employees who are participants in this plan,

(C) one representative of the trustee of the plan, and

(D) two representatives designated, one each, by the Secretary of the Treasury and the Secretary of Labor,

(3) which, except to the extent that the plan acquires qualifying employer securities in excess of those described in paragraph (4),

(A) meet the requirements of section 409A(l)(3) of such Code, and

(B) are convertible to common stock (which meets the requirements of section 409A(l)(1) of

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such Code at a price equal to its fair market value as of October 23, 1979, at the direction of the committee,

(4) under which qualifying employer securities having an aggregate value of not less than the greater of—

(A) $250,000,000, or

(B) an amount equal to 25 per centum of the amount of the loan guarantee provided for in this Act, will be purchased with the proceeds of a loan described in this Act and in section 4975(d)(3) of such Code.

(5) under which the employer agrees to make annual contributions sufficient to permit the plan to amortize such loan,

(6) which provides that each participant will have a nonforfeitable interest in all amounts allocated to the participant's account under the plan, and

(7) which provides for the allocation for each plan year of all qualifying employer securities transferred to it or purchased by it, or with regard to qualifying employer securities acquired pursuant to paragraph (4), to be released from the appropriate suspense account and allocated, to the accounts of all participants who are

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entitled to share in such allocation in substantially equal amounts.

SECURITY FOR LOAN GUARANTEES

SEC. 7. In negotiating a loan guarantee under this Act, the Board shall make every effort to arrange that the payment of the principal of and interest on any plan guaranteed shall be secured by sufficient property of the enterprise to collateralize fully the amount of the loan guarantee.

REQUIREMENTS APPLICABLE TO LOAN GUARANTEES

SEC. 8. (a) A guarantee agreement made under this Act with respect to the enterprise shall require that, while there is any principal or interest remaining unpaid on a guaranteed loan to the enterprise, the enterprise may not—

(1) declare a dividend on its common stock; or

(2) make any payment on its other indebtedness to a lender whose loan has been guaranteed under this Act.

The Board may waive either or both of the requirements set forth in this subsection, as specified in the guarantee agreement covering a loan to any particular enterprise, if the Board determines that such waiver is not inconsistent with the reasonable protection of the interest of the United States under the guarantee.

(b) If the Board determines that the inability of the enterprise to obtain credit without a guarantee under this Act is

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the result of a failure on the part of management to exercise reasonable business prudence in the conduct of the affairs of the enterprise, the Board shall require, before guaranteeing any loan to the enterprise, that the enterprise make such managerial and fiscal changes and develop such long-range managerial and fiscal plans as the Board considers necessary to give the enterprise a sound managerial and fiscal base.

(c) A guarantee of a loan to the enterprise shall not be made under this Act unless—

(1) the Board has received an audited financial statement of the enterprise; and

(2) the enterprise permits the Board to have the same access to its books and other documents as the Board would have under section 9 if the loan were guaranteed.

(d) No payment shall be made or become due under a guarantee made under this Act unless the lender has exhausted all remedies which it has under the guarantee agreement.

(e)(1) Prior to making any guarantee under this Act, the Board shall satisfy itself that the underlying loan agreement on which the guarantee is sought (A) contains all the affirmative and negative covenants and other protective provisions which are usual and customary in loan agreements of a similar kind, including previous loan agreements between the

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lender and the enterprise, and (B) cannot be amended, or any provisions waived, without the Board's prior consent.

(2) On each occasion when the enterprise seeks an advance under the loan agreement, the guarantee authorized by this Act shall be in force as to the funds advanced only if—

(A) the lender gives the Board at least ten days notice in writing of its intent to provide the enterprise with funds pursuant to the loan agreement;

(B) the lender certifies to the Board before an advance is made that, as of the date of the notice provided for in subparagraph (A), the enterprise is not in default under the loan agreement, except that if a default has occurred the lender shall report the facts and circumstances relating thereto to the Board and the Board may expressly and in writing waive such default in any case where it determines that such waiver is not inconsistent with the reasonable protection of the interests of the United States under the guarantee;

(C) the enterprise provides the Board with a plan setting forth the expenditures for which the advance will be used and the period during which the expenditures will be made, and, upon the expiration of such periods, reports to the Board any instances in which amounts advanced have not been expended in accordance with the plan, and

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(D) the enterprise provides the Board with a plan which demonstrates that such expenditures will contribute to the domestic economic viability of the enterprise.

(f)(1) A guarantee agreement made under this Act shall contain a requirement that as between the Board and the lender, the Board shall have a priority with respect to, and to the extent of, the lender's interest in any collateral securing the loan and any earlier outstanding loans. The Board shall take all steps necessary to assure such priority against any other person.

(2) As used in paragraph (1) of this subsection, the term "collateral" includes all assets pledged under loan agreements and, if appropriate in the opinion of the Board, all sums of the enterprise on deposit with the lender and subject to offset under title 11 of the United States Code.

INSPECTION OF DOCUMENTS, AUTHORITY TO DISAPPROVE CERTAIN TRANSACTIONS

SEC. 9. (a) The Board is authorized to inspect and copy all accounts, books, records, memorandums, correspondence, and other documents of the enterprise concerning any matter which may bear upon (1) the ability of the enterprise to repay a guaranteed loan within the time fixed therefor; (2) the interests of the United States in the property of the enterprise; and (3) the assurance that there is reasonable protection to

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the United States. The Board is authorized to disapprove any transaction of the enterprise involving the disposition of its assets which may affect the repayment of a loan that has been guaranteed pursuant to the provisions of this Act.

(b) The Comptroller General of the United States shall make a detailed audit at least annually of all accounts, books, records, and transactions of the enterprise with respect to which an application for a loan guarantee is made or is outstanding under this Act. The Comptroller General of the United States shall report the results of such audit to the Board and to the Congress no later than ninety days after such audit is completed.

MAXIMUM OBLIGATION

SEC. 10. The value of loans guaranteed under this Act shall not exceed amounts set in advance in appropriations Acts, provided that the maximum obligation of the Government under all outstanding loans guaranteed by the Board shall at no time exceed $

EMERGENCY LOAN GUARANTEE FUND

SEC. 11. (a) There is established in the Treasury an emergency loan guarantee fund to be administered by the Board. The fund shall be used for the payment of the expenses of the Board and for the purpose of fulfilling the Board's obligations under this Act. Moneys in the fund not needed for current operations may be invested in direct obli-

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gations of, or obligations that are fully guaranteed as to principal and interest by, the United States or any agency thereof.

(b) The sums realized from the guarantee fees required by section 5 of this Act shall be deposited in the emergency loan guarantee fund.

FEDERAL RESERVE BANKS AS FISCAL AGENTS

SEC. 12. Any Federal Reserve bank which is requested to do so shall act as fiscal agent for the Board. Each such fiscal agent shall be reimbursed by the Board for all expenses and losses incurred by it in acting as agent on behalf of the Board.

PROTECTION OF GOVERNMENT'S INTEREST

SEC. 13. (a) The Attorney General shall take such action as may be appropriate to enforce any right accruing to the United States or any officer or agency thereof as a result of the issuance of guarantees under this Act. Any sums recovered pursuant to this section shall be paid into the emergency loan guarantee fund.

(b) The Board shall be entitled to recover from the enterprise, or any other person liable therefor, the amount of any payments made pursuant to any guarantee agreement entered into under this Act, and upon making any such payment, the Board shall be subrogated to all the rights of the recipient thereof.

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(c) The Board shall make every reasonable effort to ensure that lenders and other persons maintain their unguaranteed financial assistance to the enterprise at or above the highest level provided during the period beginning on October 1, 1978, and ending on October 31, 1979.

REPORTS

SEC. 14. The Board shall submit to the Congress annually a full report of its operations under this Act. In addition, the Board shall submit to the Congress a special report not later than six months after date of enactment, which shall include a full report of the Board's operations together with its recommendations with respect to the need to continue the guarantee program beyond the termination date specified in section 15. If the Board recommends that the program should be continued beyond such termination date, it shall state its recommendations with respect to which agency should administer the program.

TERMINATION

SEC. 15. The authority of the Board to enter into any guarantee or to make any commitment to guarantee under this Act terminates on December 31, 1983. Such termination does not affect the carrying out of any contract, guarantee, commitment, or other obligation entered into pursuant to this Act prior to that date, or the taking of any action necessary to preserve or protect the interests of the United States in

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any amounts advanced or paid out in carrying on operations under this Act.

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[From Barrons, Aug. 6, 1979]

DETROIT'S BIG TWO?

FOR CHRYSLER, THE SIGNS SAY PROCEED AT YOUR OWN RISK

(By Robert M. Bleiberg)

As a glance at the accompanying chart (see below) suggests, stockholders of Chrysler Corp. lately have had perhaps more than their share of ups and downs. Shortly after the turn of the year, Chrysler common, which had closed out 1978 at 8⅝, enjoyed a shortlived spurt to over 11; the move was variously credited to the deep discount from book value ($45 at the time) at which the stock was selling, relatively heavy buying from Europe and a surge of confidence over the recent change in top management; some investors, reported "Heard on the Street," seemed to believe that "Lee Iacocca (Chrysler's new top man) walks on water." In the following months, confidence gradually ebbed, only to be followed by a fresh burst of enthusiasm, sparked by rumors of a takeover at $15 per share by Volkswagen, late in June.

Last week, however, holders of Chrysler were jolted by one piece of bad news after another: a loss of $207 million in the second quarter (and a threatened deficit perhaps approaching half-a-billion dollars for the full year); downgrading of the company's debt obligations by the rating services; omission of the common dividend. At a press conference, which made front-page headlines, Chrysler's top executives disclosed that they were seeking $1 billion in federal aid, in the form of a tax credit, over the next 18 months. The stock sagged to 7½, not much higher than that of American Motors and lowest price in half a decade.

For the press, Iacocca and John J. Riccardo, chairman of the board, sounded the note of confidence one has long associated with Detroit. "I said that there was ample justification," stated Riccardo in reply to a pointed question about corporate viability, "for working on the assumption that we're working on, and I refuse to believe that that won't happen, and I think that to consider any other alternative doesn't make sense. . . . We've invested a lot of time, energy and hard work on the project, and I think that there has been enough evidence of support from a number of quarters that I believe the government will take action."

Support—some of it guarded—indeed there has been. Ranking Administration officials, notably both the outgoing and incoming Secretary of the Treasury, have expressed their concern and interest in doing what they can. Key lawmakers, albeit cautiously, have voiced a willingness to help. Perhaps the biggest political boost has come from the United Auto Workers, whose president, Douglas A. Fraser, recently urged the federal government to put up all the "money needed for Chrysler to prosper."

Nor can one deny that Chrysler and its many friends have a case. When Lockheed fell on evil days, after all, the government effectively came to its aid (although, as one Republican Congressman carefully observed, merely with loan guarantees, on which it eventually cleared a tidy sum, rather than hard cash). Washington, of course, also has bailed out New York City, thereby underwriting the profligate local customs and keeping the city fathers and the clutch of influence-peddlers who surround them, out of jail. Moreover, the no-fault law scarcely applies. On the contrary, by extravagant and endless mandates to equip cars with safety and anti-pollution devices, and to meet a tight schedule to make them more fuel-efficient, the authorities have thrust a heavy burden on the auto industry, one that observers tend to agree weighs most heavily on smaller firms. Regulations, so Riccardo told the newsmen, "are having a double whammy on Chrysler's per unit costs, and by virtue of our size, we're the company that's least able to afford [them]."

True enough as far as it goes—but it doesn't go far enough. For one thing, the company's difficulties are largely of its own making. Back in 1954, *Barron's* ran an article on Detroit which saluted the comeback of Ford Motor Co. and underscored Chrysler's competitive shortcomings; the piece was headlined "The Big Two and a Half." More recently fresh defects have surfaced. Once famous for engineering quality and durability, Chrysler cars, whether built on Monday or any other day in the week, have apparently lost ground; last year's annual meeting heard shrill complaints from Dodge, Horizon and Volare owners. Unique to the trade, Chrysler until recently opted to build inventories according to its own schedules, rather than to dealers' orders. And it failed to shift massively or swiftly enough to the smaller cars that are now in great demand and short supply. Thus there's plenty of blame to go round and the buck stops in Detroit. Federal regulation has become an onerous drag on producer and consumer alike; the Nader juggernaut, to change the

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metaphor, should be sent to the scrap heap. Tax relief or any other form of federal subsidy will merely wind up giving it more mileage.

Powered by little more than hot air, and palpably unsafe at any speed, it already has gone much too far. Thanks to Nader and his mindless cult followers, in and outside of government, not-so-happy motorists have been saddled with extra costs, exceeding $800 per car, a figure that in the years ahead, as air bags become mandatory equipment, is apt to double. As H. C. Wainwright & Co., in its trailblazing study, points out: "The available evidence suggests strongly that the features mandated by the government through model year 1978 have decreased the utility of an automobile to the consumer. Since 1967, for example, the price of used cars relative to new cars on average has been nearly 2 percentage points higher than between 1959 and 1966. Since 1971, that ratio, on average, has increased more than 4 percentage points. . . . And, for the last two years, used car prices jumped to an average of 49 percent of new car prices—10 percentage points above their 1959–1966 average. This indicates an increase in the relative demand for used cars, automobiles that, to some extent, are not equipped with emission controls, safety devices, collision bumpers and other modifications mandated by federal regulations."

Manufacturers (and their shareholders), of course, have suffered, too. Prior to 1967, so Wainwright observes, automobile stocks as a group consistently outperformed the Standard & Poor's index of 400 Industrials. Since then, however, they have badly lagged. Thus, last year the total market value of General Motors' shares ran to only 59 percent of the peak reached in the "Sixties; that of Ford was 76 percent, Chrysler's only 24 percent." "In constant dollars, Chrysler's market value in 1978 was 11.8 percent of its 1968 peak." Starting with 1978, the annual cost of compliance with the mass of federal regulations has been estimated at $800 million per year for Chrysler, $1 billion per year for Ford and $2 billion per year for General Motors.

However, owing to a lower unit output, the regulatory burden falls relatively heaviest on Chrysler. Compared to 4.2 to 4.6 percent of sales for Ford and GM, respectively, the impact equals 7 percent of sales for Chrysler. As a percentage of after-tax profits, the figures run 112.7 percent, 68.5 percent and 496.9 percent. Here is Wainwright's bottom line: "The analysis thus indicates that the sheer magnitude of the cost of compliance with the mandated regulations scheduled to take effect in the years through 1985 threatens substantial dislocations throughout the automobile and automotive supply markets. The final stages of emission-control standards will have to be met in this period and the most dramatic of the fuel-efficiency standards will be faced in the year 1985, when the National Highway Traffic Safety Administration (NHTSA) is directed by law to require an increase in the average fuel economy of new cars to 27.5 miles per gallon. The study suggests that Chrysler may not be able to survive as a full-line auto manufacturer. . . ."

That, of course, is strictly Wainwright's view: top management, which shrugged off two probing queries at the press conference on the company's survivability, professes qualified confidence in the future. And there are achievements to which it can point with pride. Leading automotive writers on the Continent—in what Iacocca wrily called "one of the best kept secrets on this side of the Atlantic"—voted the Simca Horizon the best new car of 1979. Upwards of $500 million worth of costs per year have been slashed, and a hard-driving new executive team installed. But many mistakes have been made and the road ahead, especially in the light of the energy crunch and its impact on gas-guzzlers, four-wheel-drive vehicles and recreational vans, all of which loom large in Chrysler's product line, is palpably hazardous. Proceed, so all the signs seem to say, at your own risk.

Chrysler, of course, wants the taxpayers to share the risk, and here is where we part company. Regardless of the provocation, no private enterprise should go hat in hand to the government (it might weigh a multibillion-dollar lawsuit for damages against Ralph Nader and the feds). "All the money needed for Chrysler to prosper," not to mention other victims of the regulatory process, might grow ponderable indeed. That's tantamount to throwing good money after bad. Instead, as the Wainwright study concludes, what's needed (among other moves) is to delay and modify the federal fuel economy, emission and safety standards. Then, we would urge a sweeping reappraisal and rollback of a program the benefits of which fall so shockingly short of the costs. Jimmy Walker once said that nobody was ever ruined by a book; the stock chart (especially the long-range insert in the upper right-hand corner) speaks volumes to the contrary.

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[From editorial, Business Week, Nov. 12, 1979]

The Open Treasury Door

In his efforts to help ailing Chrysler Corp., President Carter has proposed a government loan-guarantee of $1.5 billion—twice what Treasury Secretary G. William Miller said the company could get and about one-third of it really needs. Even if the government's offer were not contingent on Chrysler's getting another $1.5 billion from the private money markets without guarantees (which is by no means assured), the bailout would not succeed. Chrysler, buffeted even more than before by sagging markets because it has the wrong products, is unsavable in its present structure. The bailout would not only be a failure but also a dangerous and entirely unwarranted departure from the basic principle of letting the economy mete out its own rewards and punishments.

If Congress accepts the proposal, the U.S. will be providing a large subsidy to the auto industry's least efficient producer. Moreover, the bailout would involve such favorable terms for Chrysler's creditors, employees, and management that it would amount to an invitation to almost any troubled company to come to the friendly old Treasury for help.

Chrysler cites as precedent the $250 million guarantee for Lockheed Aircraft Corp. in 1971. But the Lockheed case was different. It did indeed set a precedent, but part of Lockheed's cash shortage was attributable to a long dispute with the Pentagon over payments for government work. Even if there were no distinction between Lockheed's case and Chrysler's, this still would be the time to break with precedent and stop the trend toward making the government the lender of last resort for any big company in trouble.

The bankruptcy of a company the size of Chrysler would be a frightening thing for all business. But it would not necessarily mean that the company would no longer produce cars or provide jobs. The new Federal Bankruptcy Act provides for continued operations of a company undergoing reorganization and rearrangement of debt. Instead of pounding on the Treasury's door, Chrysler should be using the machinery that the law provides to deal with its problems.

[From the Chicago Tribune, Aug. 15, 1979]

Chrysler's Plight Recalls Some Unhappy Parallels

(By Caspar W. Weinberger)

"Those who cannot remember the past are condemned to repeat it," wrote George Santayana. Another of those frightening parallels between the problems of the past and the Carter administration surfaced last weeek when the Chrysler Corporation, after reporting nearly a quarter of a billion dollar deficit for the second quarter of the year alone, announced that the only solution to its problems was a one-billion dollar grant from the Federal government.

Everyone has noticed the parallel to the 1971 demand by Lockheed for a quarter of a billion dollars in Federal loan guarantees to "keep us from going bankrupt." Eight years later the next major private corporation in trouble asked for four times as much in cash—and the administration has replied that it is willing to guarantee loans of up to $750 million.

The parallel with Lockheed is not precise, but it is close enough. What no one seems to have yet noted are the other disastrous parallels in the United States and the United Kingdom.

Chrysler points to the fact that the government did not lose any money as a result of guaranteeing Lockheed's loans, and this is true. That is one of the differences between the Lockheed and the Chrysler situation. Lockheed had a huge number of government contracts, and, in effect, pledged as security the amounts of money the government would owe to Lockheed if Lockheed were able to complete its programs. So the risk for the Federal government was far less.

In England a few years ago, Rolls Royce reported dire troubles and Britain's Labor government obligingly came to the rescue. That put the government into the aircraft engine manufacturing business. Previously, England took the same actions with respect to failing shipyards. The British government is still in both businesses, and many more.

The arguments are always the same: If the government does not pay the demanded subsidy, the company will fail, huge numbers of people will be unemployed, and they will all vote against the incumbent administration, a prospect that is to be avoided at all costs.

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What never seems to be noticed is that the failing company usually has quite a respectable share of the market and has managed to make a large number of sales right up to the time it finds it needs government assistance.

In 1977 Chrysler had $13 billion in revenues and managed to earn $163 million net. In 1978 Chrysler had $13.6 billion of revenue, but managed to lose $204 million. Their share of the market declined to 10 per cent.

The latest Chrysler figures show that it has current assets of about 3½ billion and current liabilities of about 2½ billion. It violates every bit of history, precedent, and commonsense to suppose that a company that has even only 10 percent of the total market of automobile sales, with all of its problems, would quietly fade away if, under its present management, it went bankrupt.

If the company goes bankrupt under its present management, there are bound to be many American, and certainly a number of foreign, groups who would be delighted to come in and manufacture enough automobiles to retain the 10 per cent share of the market that Chrysler now has. If some of these groups are equal to the existing management of Chrysler, they could expect at least to retain that.

A great many of Chrysler's problems are problems common to the industry: It is heavily over-regulated, with a number of quite unreasonable government demands in the name of pure air and total safety, many urged by a number of lobbies, some off which are of quite dubious antecedents.

But this over-regulation affects the industry as a whole. It is nothing that requires the Federal government to pay out a billion dollars so that the existing management of one company can continue. Chrysler has valuable assets, large Army contracts for tanks, and 10 percent of the market. If there is no one who wants to try to make a profit out of that combination, we are indeed in serious trouble.

If, on the other hand, we succumb to an election-based demand that we "not let Chrysler go down the tubes," there will undoubedly be columns written 5 or 10 years hence asking how we got into a situation that requires continued government subsidies for one private company, or perhaps columns asking what it was led to the nationalization of the whole automotive industry.

[From the Chicago Tribune, Aug. 18, 1979]

CHRYSLER FINDS A FRIEND

"If you say, 'OK, if somebody fails in the competitive race, then we're going to bail them out someway,' I don't think that's in accordance with what really made this country great."

General Motors chairman Thomas A. Murphy made that remark in reference to government aid for Chrysler Corp., the ailing automaker with palms up for $1 billion in federal assistance.

Less than two weeks after Mr. Murphy made that remark, his firm's financing subsidiary, the General Motors Acceptance Corp., announced that it would buy up to $230 million in wholesale receivables from its Chrysler counterpart. Has Murphy changed his ideas about bail-outs and the "competitive race"?

Not necessarily. The deal is hardly charity on GM's part. Company officials call it as a "good business decision"—and with good reason, since the return on GMAC's investment will be 1½ percentage points above the prime rate—or 13¼ per cent at the current prime rate.

The GM deal will help Chrysler Financial by reducing its lending requirement, which, in turn, will help the parent company. But the GM money won't provide a ready pool of cash that Chrysler can dip into for its investment needs.

It has been argued that GM needs to keep weaker competitors in business for its own good. With Chrysler gone, for example, federal antitrust guns might be trained on GM—and its Chevrolet division targeted for divestiture. The argument gains strength when GM buys receivables from Chrysler Financial [or from American Motors, as it did in 1971].

It is also suggested that the auto industry is a special fraternity in which members will help one another out rather than let in an outsider, namely the federal government.

Both theories have some plausibility; but even if they're true, we can't see anything nefarious about them. The theory most plausible to us is simply that GMAC had money to invest, saw a good deal, and grabbed it. Auto companies have many transactions with one another—supplying parts or providing technological assistance—but they are all for a price.

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[From the Chicago Tribune, Aug. 31. 1979]

It's Still a Bailout

The Carter administration, ever ready but somehow never quite able to rise above political expendiency, has decided to offer up to $750 million in loan guarantees to the beleaguered Chrysler Corporation. This would be three times the $250 million loan guarantee to Lockheed in 1971.

All that Chrysler need do in exchange, says the administration, is prove to the government's satisfaction that the management, employees, stockholders, creditors, suppliers, and other business associates of Chrysler will do whatever it is that the government thinks they ought to do.

Call it state capitalism or corporate socialism, it has been tried in Europe and has proved unsound.

Thanks largely to Chrysler's own management mistakes, the corporation is in such straits that it asked taxpayers to lend it $1 billion, without interest, to be paid back if and when it ever makes money again.

So extreme a request for corporate welfarism probably made it easier for the Carter administration—with its professed belief in the rigors of competition—to make this counter offer of a loan guarantee. So instead of the government's coming up with $1 billion in cash, private lenders will come up with $750 million for Chrysler.

But since it's the government that guarantees the loan, it's the government that will be out $750 million if Chrysler goes "belly up." Some difference!

As we and others warned at the time, the $250 million in federal loan guarantees to Lockheed in 1971 has set a bad precedent. It says in effect that big business needn't worry if it doesn't function efficiently enough to stay competitive. The government will be there to rescue inefficient or uneconomic enterprises.

The distortions of this approach are boundless. The government, for example, expects Chrysler employees to make wage sacrifices if the government is to guarantee the loan. The clear implication is that if Chrysler's 130,000 employees don't behave as Big Brother wishes, then Big Brother will let their employer Chrysler, go under.

But if there is still room for four automobile makers in the U.S. today, one can expect a foreign car maker or some consortium to buy up Chrysler's plants and employ Chrysler's workers if Chrysler can't make a go of it on its own.

There may be good anti-inflation reasons for Chrysler and other workers to temper their wage demands, but this government quid pro quo has the searing odor of Stakhanovite statism. The Congress ought to reject it.

[From editorial, The Christian Science Monitor, Aug. 8, 1979]

Caution on Chrysler

Should the American taxpayer bail out the Chrysler Corporation to the tune of $1 billion, four times the biggest bail-out of a private company—Lockheed—up to now? Henry Reuss, chairman of the House Banking Committee, provided the basis for an answer as the Washington debate grew over whether to grant Chrysler's request for such a bail-out:

"Before Congress considers a billion-dollar tax subsidy or loan guarantee for Chrysler like that once extended to Lockheed, members need to be convinced that Chrysler is doing everything possible to help itself. Congress would also want to be convinced that Chrysler has definite and realistic plans for getting back on solid ground."

This means that Chrysler would need to add to its tradition of sound engineering a better grasp of marketing and management in a changing transportation scene. It would mean attention to such specifics as those suggested by Representative Reuss—fuel-efficient small cars and public transportation equipment. There is the question, too, of whether Chrysler workers should not accept some adjustments in labor contracts to help keep the company afloat before their fellow taxpayers, many of them less well paid, are expected to step in.

Lockheed has in recent years paid off the government-guaranteed loans it received. But controversy remains over whether the full facts were known about Lockheed operations and whether, indeed, the bailing-out of individual companies is a proper and effective role for government. On the latter point, the example of Britain has not been encouraging. As Congress considers the Chrysler request, it

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ought to make sure that it has all the necessary information—and that the whole philosophical question is addressed.

Chrysler no doubt is not the last company to face difficulties during America's painful period of economic adjustment. The period is a test of the private enterprise system. The handling of the Chrysler case could be a precedent for how much government is necessary to bolster private efforts.

Consider the example of American Motors Corporation. It has received a comparatively modest amount of special government aid during dark days in the past. But it appears that its recent recovery from the latest slump of two years ago has been achieved through constructive change in corporate strategy as well as practical improvements up and down the line. It is a small operation compared to Chrysler, the third of America's big three of automakers. But it has shown results. Chrysler has itself taken some forward-looking steps. In the Omni and Horizon it brought America the country's first small front-wheel-drive cars. One reason it wants assistance is to go further in this direction.

But Chrysler did not help its case for aid by tracing so much of its problem to federal pollution and mileage standards—claiming a particular burden because Chrysler produces fewer cars than the other majors over which to spread the cost of improvements. These standards are part of what cars in America are going to have to be. Carmakers will have to exercise the skill and inventiveness to meet them.

The essence of the competitive system is to preserve the companies that can do things best. No one wants to see Chrysler and the jobs it provides go down the drain. But unless it can demonstrate that it can compete, taxpayer aid will go down the drain anyway. Mr. Reuss is right in saying that Congress will have to be convinced.

[From the Christian Science Monitor, Aug. 23, 1979]

CHRYSLER SUBSIDY: ONLY THE LATEST MODEL

(By Joseph C. Harsch)

If the Government of the United States decides to bail Chrysler Corporation out of its present financial difficulties, it may or may not be making American industry softer and less efficient. But it will not be striking any novel or fatal blow at the system of private enterprise as it has been practiced in the United States.

Government subsidy to industry is a much older and more frequent practice than most Americans probably realize. It predates Karl Marx. It has respectable antecedents in every modern Western country.

One of the earlier forms of government aid to industry was royal charters or grants of monopoly rights for the specific purpose of building up a new industry. Europe is sprinkled with "royal" factories of one sort or another making china, tapestries, lace, etc. Often these foundations were launched with government subsidies.

Royal action created such things as the textile industry in England. Flemish weavers were induced to cross the channel and come to England by the offer of benefits and favors. It may be unkind, but it would not be inaccurate, to say that they were bribed to bring their skill to England. It ruined the textile trade of Flanders, but built a new textile industry in England, and helped to found the British Empire.

In America, government subsidies have taken many forms, from "protective" tariffs intended to benefit some particular company or activity, through postal subsidies to ship lines, railroads and airlines, to services which have created whole new industries. An example of the latter is the vast system of interstate highways built by the taxpayers which in turn spawned the trucking industry of today, and bankrupted most of the railroads in the process.

US Government projects such as power dams for the Tennessee River Valley in the old South and many another dam in the new West have provided incentives to new industries in the form of cheap electric power. They have often ruined old industries in the process. Cheap electricity in the Tennessee Valley attracted textile mills from New England, leaving people unemployed in the North.

There have been plenty of other and less savory forms of government aid to industry. Many an American fortune was founded on the sale of shoddy uniforms, ammunition that did not work, or spoiled food to dishonest government contractors during the Civil War. Other fortunes were founded on plain graft during the Grant and Harding administrations. In one form or another, it all subsidized new or old business or industrial activities.

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Chrysler is asking for help openly and honestly, which is an improvement over methods employed by other lagging activities at times in the past. If help is granted, it will only be after the issue has been aired in the public press and debated at many a family dinner table. There is no concealed graft, no sly clandestine "rip-off" involved in this case.

Nor was there anything secretive or dishonest whon Lockheed asked for help, and got it, and has since prospered. And since Lockheed made good use of the credit extended, a case can certainly be made that aid to Chyrsler would also be in the general public interest. It would be in that general public interest if Chrysler management were capable of turning an ailing corporation around and making it lively, efficient, and productive again.

So the issue is not the survival of the private enterprise system. It will continue to survive in its curiously complex version familiar in the United States, where government and enterprise have always been mixed up together in fact more than is usually admitted in theory.

The issue is purely and simply whether the Chrysler Corporation is needed in the general public interest and whether its rescue by government credit will be justified by its reemergence as a lively, efficient, and useful institution.

It would be folly to invest government funds in Chrysler if that corporation is already obsolescent. Does the US really need three major automobile manufacturers? Perhaps two would be enough. It would be wasteful to subsidize a mere protraction of Chryler's existence. Unemployment relief is cheaper than subsidizing unnecessary jobs.

In other words, do we really need Chrysler? And would its management be competent enough to use government aid to advantage?

[From editorial, Dun's Review]

Chrysler: The Wrong Way to Go

(By Clem Morgello, editor)

Aid for troubled Chrysler Corp. is high on the agenda of the reconvened Congress, so a review of some of the forceful arguments against such a move seems in order.

First, there's the matter of principle. Under free enterprise, there are penalties for failure as well as rewards for success. The carrot and the stick help keep the system efficient. On a theoretical level, there can't be any quarrel with that principle.

On a practical level, there doesn't seem to be much chance that the collapse of Chrysler—if, indeed, it came to that—would throw the entire economy into a tailspin. One authoritative study pegs the amount of permanent unemployment that would occur at Chrysler and its suppliers, should the automaker fail, at between 200,000 and 300,000. That's nothing to sneeze at, certainly. But neither does it warrant making a special case of the Chrysler situation. The entire economy, including the financial markets, could absorb the blow of a Chrysler failure.

Helping Chrysler would be unfair to competitors—and to thousands of companies that fail each year without hope of receiving the kind of help that the corporation now seeks. And how would you feel if you had been a stockholder of the old Penn Central or W.T. Grant?

It is true, as the automaker points out, that government regulations regarding safety, pollution and fuel economy have contributed a great deal to its problems. But to go from there to the conclusion that Washington now has the responsibility to shore up the company is to invite the camel into the tent. Corporations are constantly fighting government intrusion into their affairs. They have lost many battles, but they have still shown enough strength and resilience to maintain their independence. Chrysler's plea amounts to an admission that the point of no return has been reached, that the government has done so much damage that only Washington can repair it. If that position is accepted, it's not hard to imagine companies in other heavily regulated industries such as steel, chemicals, paper and power generation lining up for government aid. And with government aid will come, inevitably, more government control.

We wish Chrysler well and hope it can somehow find a way out of its difficulties with the help of its unions, bankers, stockholders and management—and without the government. We hope, too, that Chrysler's dramatization of the very real and onerous burden of government regulations will bring about some sensible modifications.

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[From the Journal of Commerce, Aug. 6, 1979]

Go Slow on Chrysler

Chrysler chairman John J. Ricardo's plea for $1 billion in federal support for the ailing number three automobile manufacturer generates a curious sense of deja vu. It was eight years ago to the week when the Senate, on a 49–48 roll-call vote, cleared the way for President Nixon's signature on a bill authorizing a federal guarantee of $250 million in bank loans for the troubled Lockheed Aircraft Corp. The House had passed the bill by an equally close roll-call, 192–189, only three days earlier.

Chrysler wants cash, not loan guarantees, in the form of specially designed tax credits. Also, it is primarily a consumer products company, not the nation's largest defense contractor. It is questionable also whether the outcome, this time, would be as painless. The Lockheed guarantee never cost the government a cent. In fact, it earned it $30 million in fees.

Lockheed then, like Chrysler today, was not without hope. Its problems developed soon after Rolls-Royce Ltd., the British maker of engines for its L–1011 jetliner, declared bankruptcy. Burdened by penalties assessed by the Defense Department for cost overruns on the C–5A military transport and other defense contracts, Lockheed needed additional credit to get into production on the L–1011 and it needed the L–1011 to stay in business. At stake were the jobs of 17,000 of its own workers, plus 14,000 at the plants of L–1011 suppliers.

Chrysler's situation is similar in many ways although bigger. The company is the nation's 10th largest industrial concern, accounting for 250,000 jobs itself, and an equal number through suppliers. It is pinning high hopes on the introduction of a new line of front-wheel-drive cars over the next 18 months, a program calling for the infusion of large amounts of additional funds. Meanwhile, however, a number of factors have made it increasingly difficult for the company to command credit in the private capital markets.

One is unimaginative styling and engineering which have led to a decline in the company's share of market to the lowest level in 17 years. In 1970, Chrysler's share of the U.S.-made passenger car business was as high as 19 percent; today it is less than 12 percent. Another is narrow profit margins. In part this is a reflection of the fact that it has few, if any, fast selling models. It also, however, speaks to the consequences of less manufacturing integration than other makers. Chrysler must buy more of its components outside the company at higher costs than if it could make them itself. Then, there is the big-car inventory glut experienced by all manufacturers but exacerbated for Chrysler by the fact that, unlike General Motors and Ford, it traditionally has manufactured to factory inventory as well as customer and dealer orders.

Still another factor, the one upon which Mr. Riccardo is basing his hopes for a federal bailout, are the costs implicit in meeting federal mileage, safety and emission standards. In the Energy Act of 1975, 18 miles a gallon for the 1978 model year up to 27½ miles a gallon by 1985. In practice, this has meant two rounds of downsizing and redesign for U.S. automobile makers, one more readily met by GM and Ford than by Chrysler with its narrow profit margins and high unit overhead costs.

David Healy, automobile analyst for the New York Stock Exchange member firm of Drexel Burnham Lambert Inc., puts it this way:

"Although it was doubtless not Congress' intent at the time, the Energy Act of 1975, in a brilliant display of 'the law of unintended consequences,' has resulted in such benefits for the largest producer, GM, that the act should probably be rechristened 'The General Motors Competitive Advantage act of 1975.' The 1974–75 recession did not delay GM's resizing plans, and the largest company's substantial product lead still seems to be widening, at least if its recent 58 percent share of market and increasing profitability are indicative."

Mr. Riccardo has said that the threat to Chrysler is long-term, not immediate, and most analysts agree—although the first-half loss of $260.9 million is greater than that for all of 1975. $259.5 million, and there are guesses that the company could lose as much as $600 million for the full year. Also the decline in the company's truck and van business, which had been going great guns until the advent of gasoline lines this spring, has been greater than expected.

The retreat, however, remains orderly. Over the past several years, the company has sold off piece by piece its worldwide automobile manufacturing facilities, including a year ago Chrysler France, Chrysler Spain and Chrysler U.K. to PSA Peugeot-Citroen of France, making the latter Europe's largest automaker. It has also sold most of its non-automotive subsidiaries.

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What is left are a few more subsidiaries—a small but promising defense-space operation, Chrysler Realty, Chrysler Financial and Chrysler Canada—plus some largely unused bank credit lines. The question is how much more whittling down will be required to make Chrysler a going concern once again.

Government aid is, of course, not the only possible answer to Chrysler's problems. Acquisition by a foreign manufacturer—talks with Volkswagen have been bruited about but never confirmed—is another. Such a step would assure a foreign maker against being excluded from the U.S. market, either by growing protectionism here or dollar devaluation. It would assure this country of continued output and jobs.

The danger of government intervention to help an ailing concern is that a first small step now may lead to larger ones later. Congress should be certain before deciding on a Chrysler bailout that there is no equally acceptable alternative.

[From the Journal of Commerce, Aug. 30, 1979]

PUBLIC'S ROLE IN CHRYSLER BAILOUT

(By Bruce Stokes)

In a bold show of corporate chutzpah, Chrysler has asked the government and the United Auto Workers to bail it out. After years of poor management decisions about future demand for small cars, the number three automaker wants Washington to defer the payment of $1 billion worth of taxes over the next two years and has asked the UAW to hold the line on wage increases over the same period. If the public is to pay to keep Chrysler afloat, even at the reduced level of assistance suggested by the Carter administration, then it deserves more than pious assurances of better management decisions in the future. The public and Chrysler's workers need to be involved in making those decisions.

Chrysler's bankruptcy would have serious consequences. The livelihoods of nearly a half million people depend on Chrysler. Up to 40 percent of these workers might lose their jobs if the company fails or reorganizes. The cost to society in lost gross national product and in welfare payments would far exceed $1 billion. The cost to the consumer—in terms of the anticompetitive implications of an even greater concentration in the American auto industry—is impossible to measure.

If Chrysler is to be saved, people need to be assured that the company will not come back to Washington again with an open hand. Public and union representatives could be placed on the board of directors while wages are frozen and the government is being repaid. Furthermore, government assistance could be in the form of a loan to the company through an Employee Stock Ownership Program (ESOP) trust, so that Chrysler employees have a future say in management and a greater vested interest in the company's success.

Such a plan would look something like this. Chrysler would set up an ESOP trust that would borrow $1 billion from the government or from private banks with a government guarantee. The trust would give the money to the company in return for an equivalent amount of common stock. Every year Chrysler would give part of its profits to the employee trust, which would send the profits on to the government or to the banks to repay its loan. As the loan is repaid, the trust would allocate stock to the company employees. The employees could sell their stock, but only back to the trust so that shares would remain in the hands of the workers.

PUBLIC SCRUTINY

If an ESOP loan were dependent on the placing of citizen representatives on the Chrysler board, public scrutiny might give the taxpayer greater assurance of the money eventually being repaid. For the Treasury, this approach is certainly preferable to a no-strings-attached tax deferral. For Chrysler, an ESOP loan is cheaper than raising money on the open market, because corporate profits placed in an ESOP trust are tax deductible. Since Chrysler is in the 50 percent tax bracket, it would have to have profits of about $2 billion to pay back a normal $1 billion loan. The advantages of an ESOP trust are that Chrysler can raise the new capital it needs virtually for free.

Chrysler would not be the only major company with partial employee ownership. Such prominent corporations as Mobil, Weyerhaeuser, and Atlantic Richfield have ESOCs, although without public or worker representatives on their boards. The Employee Stock Ownership Council estimates that there are now 3,000 ESOPs throughout the country.

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Even ESOPs tied to government assistance are not new. In 1975, for instance, the Economic Development Administration lent $5 million to a trust set up to save South Bend Lathe in Indiana, one of the nation's leading machine-tool producers. The company is now prospering, thanks in part to higher worker productivity, better quality work, and fewer worker grievances, according to a University of Michigan Institute of Social research study.

As the Chrysler ESOP loan was repaid, public and union representation on the board of directors could be phased out, to be replaced by directors elected by the new employee/owners. Such labor representation in the corporate boardroom is commonplace in other industrial countries. Since mid-1978, labor has held half the seats on the supervisory boards of nearly 700 German firms, encompassing more than 5.6 million workers.

EC ACTION

The European Community will soon require any company wishing to incorporate as a European rather than as a nationally chartered oranization to place workers on its board. And the Americans public sees nothing revolutionary in such initiatives. A 1978 poll by the American Council of Life Insurance showed that 48 percent of the population thinks workers should have a greater say in running the companies they work for.

There is no way to know for certain if public and labor participation in management can turn around an admittedly sick company. But the time may have come when having labor and management on opposite sides of the table is a luxury we cannot afford. It is interesting to note that the economists used by the labor representatives on Volkswagen's board were better at predicting car market trends in the early seventies than the company's own analysis. In addition, studies by Michigan's Institute of Social Research show that the more equity workers own in a company, the greater the profitability of the firm. Since auto industry productivity increased a dismal 0.2 percent between 1977 and 1978, giving workers a greater stake in the company could help productivity.

An ESOP loan, partial worker ownership, and public and labor representation on the board of directors are not the sole answers to Chrysler's problems. The die may already be cast due to past mismanagement. The prospects for the success of worker participation would certainly be better in a healthier company. And there remains the broader question of whether government assistance would be better spent creating alternative job opportunities for Chrysler's workers.

But the Carter administration seems intent on a bailout and there will be heavy pressure on Congress to follow suit.

[From the Los Angeles Times, Aug. 14, 1979]

AID AND CHANGE FOR CHRYSLER

The Carter Administration is on the right track with its tentative decision to recommend $500 million to $700 million in federal loan guarantees for the Chrysler Corp. if, and only if, the financially troubled company comes up with adequate assurances that it won't go broke anyway.

Chrysler, which suffered severe losses last year and is on the way to losing even more money in 1979, wanted the government to extend $1 billion as a cash advance against future tax credits. In effect, that would have been a huge, interest-free loan with no collateral.

According to free-market economic theories, companies which can't make their own way in the competitive marketplace should be allowed to go under.

In real life, however, it is difficult for a democratic government to pursue such sink-or-swim economic theories when the corporate failure in question could cost upwards of 300,000 jobs, cast a pall over the economic well-being of dozens of communities, and impose new strains on the U.S. balance of trade. The pressures to throw out some kind of life-preserver as well nigh irresistible.

Thus the Administration, while giving Chrysler's proposal for $1 billion in advanced tax credits the quick brushoff that it deserved, emphasizes that it recognizes the importance of saving "the jobs and productive capacity" represented by Chrysler if it reasonably can.

Treasury Secretary G. William Miller disclosed last week that the Administration may be willing to seek congressional authorization of a plan under which Chrysler could obtain hundreds of millions of dollars in new bank loans, with the federal

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government guaranteeing repayment. This would be in accordance with the Lockheed loan guarantee program of 1971.

Miller made it very clear, however, that before the Administration goes marching up to Capitol Hill to seek congressional approval for such a bail-out, Chrysler must present a plan that meets several conditions.

Those who have a direct stake in the company's survival—stockholders, employes, creditors and management—must be willing to make some sacrifices of their own. For starters, President Carter suggests that corporate executives forgo raises in pay and fringe benefits.

More important, the Administration wants a showing that the federal loan guarantees, if extended, will indeed enable Chrysler to survive without coming back to Washington again and again with its hand out.

Key congressional sources insist that they will not be rushed into approving a bail-out plan. In addition to demanding the sort of assurances sought by the Administration, they must also be convinced that no practical alternatives exist that would keep the Chrysler work force employed even if the company itself went out of business or merged with a domestic or foreign competitor.

Chrysler, in short, will not find it easy to qualify for federal help. But that is as it should be.

[From the Manchester Guardian, Aug. 12, 1979]

The Bailing of Chrysler, Episode Two

The best one can say of the Chrysler Corporation's plight is that the great U.S. car company does seem to have a wonderful gift for locating itself in marginal constituencies. The difficulties of Chrysler UK would surely never have caused the Labour Government such agonies had Linwood been located in the London stockbroker belt. The fate of the parent company in America, which is pressing President Carter's Administration for $1 billion in special tax relief over the next 16 months, will undoubtedly be influenced by the fact that its main manufacturing capacity is in the states of Indiana, Illinois, Michigan and Ohio. Carter lost the first three in 1976, and won Ohio by a whisker.

Meanwhile the debate in the U.S. over whether Chrysler ought to be helped is following lines which are remarkably familiar to the British. It is not clear, to begin with, how serious the consequences of a refusal of Government aid would be. Mr. John Ricardo, the company's chairman, does not believe that the company would go bust and he is probably right. The company can almost certainly cope with its immediate difficulties by closing down some of its activities, or selling them off as it has already done in Europe. But without help, the company has precious little chance of sorting out its medium term difficulties.

The real question is whether the company has much hope of a brighter future if it does have State help. Chrysler's difficulties date back to the 1974-75 recession, when it made large losses and decided to defer a lot of its new car programmes. It also cut its white-collar staff by about a third, laying off many of its designers and engineers. The result has been a continual stream of production and development holdups, and a growing reputation for poor quality.

It has been slower off the mark in developing a small car than General Motors—this has inevitably been the strongest area of consumer demand. And Chrysler's particular system of manufacturing cars "on spec" has aggravated its problems. While Ford and General Motors generally build to meet dealer orders, Chrysler tends to build for stock—which means that when demand from the dealers falls off, Chrysler is caught with the burden of financing its unsold vehicles.

Given time, luck, and better management, Chrysler could probably sort out most of these problems. But the background to any rescue bid would be a deepening recession, with inevitable cutbacks in consumer demand for cars. Chrysler may well make a loss in the third quarter of the year just as big as its record second quarter loss. It will—whatever happens—continue to make a loss well into next year. Only an incurable optimist would bank on profitability before the end of 1981.

So as a financial proposition, a Chrysler rescue is not very promising. On the other hand, there is probably no other way of saving jobs in the company and its suppliers. There have been persistent rumours that a foreign company might buy it. But the three most likely contenders, Volkswagen (whose name has been most frequently mentioned), Toyota and Nissan are unlikely to have the financial resources or the spare management to take over so large a lame duck. It may not be easy—or honest—for the British to tell the Americans not to bail out failing car

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companies. But in the longer run, against the backcloth of constriction, the oney may not even buy votes.

[From National Review, Aug. 31, 1979]

VICTIMIZING CHRYSLER

Chrysler is the latest victim of the New Class. Finished off by costs running in the hundred millions of dollars imposed on its operations by federal regulations, the corporation stands as a supplicant for federal aid. Some free market economists opposed to subsidies are against aid to the automaker. While it is true that the government should not be in the business of bailing out firms that fail the market test, Chrysler's failure stemmed from Washington more than from the market. If the corporation does go under, the Federal Government should be required to indemnify the shareholders—their equity having been destroyed—and to pay both management and the work force the present value of their lost future earnings.

The automaker, of course, will not be allowed to go under. And that makes it important for conservatives and Republicans to get into the act of saving it. If the bailout is supported only by the liberal Democrats who regulated the firm into failure, then the price Chrysler will have to pay for federal aid will be acceptance of the New Class's "corporate social responsibility" package. That means public representatives on Chrysler's board and so forth.

Once the New Class gets its hooks into Chrysler, the automaker is not likely to recover. Nationalization would follow, and the government would not long tolerate privately owned GM and Ford showing up the performance of socialized Chrysler. After all, if private enterprise does it better, what's the justification for a socialized firm?

On the subject of nationalization, the AFL–CIO has called for nationalizing the oil industry unless it can show it is acting in the public interest. "The nation cannot afford to be at the mercy of the barons of American oil companies," said the AFL–CIO. But what about the barons of labor? With garbage strikes, police strikes, truck strikes, airline strikes, teacher strikes, steel strikes, rail and subway strikes, and construction strikes, what labor union can demonstrate that it acts in the public's interest? The AFL–CIO argument justifies nationalizing wage labor and making the work force serfs of the state. Of course, that's not what the labor barons have in mind. It is just that the AFL–CIO is increasingly dominated by the public employee unions, and they see an opportunity to get their hands on the oil industry.

[From Newsweek, Sept. 10, 1979]

BAILING OUT CHRYSLER WOULD PRESERVE UNPRODUCTIVE JOBS AT THE EXPENSE OF PRODUCTIVE JOBS

(By Milton Friedman)

In its high-powered campaign to induce Washington, to bail it out, Chrysler Corp. has stressed jobs. Let Chrysler go bankrupt, the logic goes, and 500,000 jobs will be at stake—the jobs of the 130,000 people employed directly by Chrysler and the jobs of the numerous others employed by parts suppliers, Chrysler dealers and so on in remoter and remoter circles.

To put it plainly, this is hogwash. Bankruptcy is one thing. Idling Chrysler factories and assembly lines is a very different thing. A concern that goes bankrupt generally continues to operate under administrators appointed by the court, with instructions to recover as much as they can to meet the obligations that are in default. Many a company emerges from bankrupcty after an interim period to resume full operation as a private enterprise under new management and with a clean financial slate.

USEFUL FACILITIES

Similarly, parts suppliers and the other enterprises now related to Chrysler will not stop operating. They will go on serving whatever Chrysler operations continue, as well as any automobile manufacturers that inherit the business Chrysler loses. No doubt many of the related enterprises will suffer losses, along with Chrysler stockholders, but that is a risk they knowingly run in order to be able to enjoy profits.

Even if Chrysler did not continue to operate as a single enterprise, its facilities would not go up in smoke or go to wrack and ruin or even stand idle. If its facilities

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are worth using to produce automobiles, it will pay other automobile companies to buy and operate them, or new companies will be set up to acquire them. If Chrysler facilities are not worth using to produce automobiles, but have value for other activities, they will be purchased for those purposes.

If Chrysler is not bailed out, the facilities worth using would be taken over by people who would be risking their money in the belief that they can make more effective and productive use of them than Chrysler's present management. In the process, they would create new jobs.

If Chrysler is bailed out, it will cost the taxpayer money. The cost may be hidden in the form of loan guarantees, but it is real nonetheless. It includes the possible loss if Chrysler cannot repay the loan. It includes also the slightly higher interest rate that the government will have to pay because it has increased its liabilities. Bailing out Chrysler will not change the total amount of capital available to the economy. But it will divert capital to Chrysler from other more productive uses.

Bailing out Chrysler would simply preserve unproductive jobs at the expense of productive jobs. However, the people who would be denied jobs by a Chrysler bailout do not even know who they are, so they cannot speak out to counter the self-serving claims of the firm's present management.

The private-enterprise economic system is often described as a profit system. That is a misnomer. It is a profit and loss system. If anything, the loss part is even more vital than the profit part. That is where it differs most from a government-controlled system. A private enterprise that fails to use its resources effectively loses money and is forced to change its ways. A government enterprise that fails to use its resources effectively is in a very different position. If Amtrak loses money, it is more likely to get a larger appropriation from Congress than to be forced to change its ways. Indeed, Congress may even instruct it to expand.

BAD MANAGEMENT

An enterprise may lose money for reasons beyond its control that are not likely to be repeated; or it may lose money because it is mismanaged. If if is possible to tell which, the market will distinguish. In the first instance, people who risk their own money will bail the enterprise out of its temporary difficulties; in the second, they will replace the management or force the enterprise to close down. Often it is not possible to tell whether bad luck or bad management is to blame. In that case, the market is likely to act as if it were due to mismanagement. That undoubtedly is harsh on some individuals and some companies. But it is highly beneficial for the community as a whole. It assures that resources are directed toward those enterprises that can use them most effectively.

This system produced the remarkable growth in the productivity of the U.S. economy during the past two centuries. Our increasing rejection of this system in favor of a government-controlled economy is a major reason why productivity in recent years has gone into reverse.

[From the New York Post, Nov. 12, 1979]

THE CHRYSLER BAILOUT: A BAD DEAL GETS WORSE

Alfred E. Kahn, chairman of the Council on Wage and Price Stability and less formally known as the President's "chief anti-inflation fighter," has increasingly sounded like a man who feels he is waging a lonely, losing battle. Now he has raised his voice in a new, urgent challenge.

Will the Administration stand behind him?

The issue this time is the agreement negotiated by the floundering Chrysler Corp. and the United Auto Workers.

Kahn asserts the terms of the deal are an "outrageous" violation of federal guidelines and especially indefensible in light of the $1.5 billion bail-out loan projected by the Administration.

Kahn said the new contract "does not remotely approach the kind of sacrifice that I think has to be demonstrated as a condition for being bailed out."

He also said that President Carter shared his appraisal and "may well refuse to authorize the loan guarantee" unless both the corporation and the union offer "genuine contributions and sacrifices."

While some details of the pact remain unclear, the basic thrust of Kahn's statement appears incontestable. Despite some modifications (such as a $200-million deferral of payments to the pension fund), there is no dramatic revision of bargaining-as-usual.

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Kahn is not proposing one-way "sacrifice." He is clearly suggesting that the corporate structure must be prepared for far more drastic cutbacks in its own lifestyle while asking further concessions from the UAW.

But UAW president Douglas Fraser says that neither Vice President Mondale nor Treasury Secretary Miller raised any questions when the agreement was outlined to them last week.

Will Kahn once again be left out on the firing-line alone?

We have previously expressed our negative view of the whole bail-out enterprise. Our doubts are strongly reinforced by Kahn's latest cry in the night. This inflationary operation compounds the case against the Chrysler rescue arrangement.

[From the New York Times, Aug. 19, 1979]

The Haste To Bail Out Chrysler

If President Carter can enact his guaranteed loan program for the Chrysler Corporation, it should be called the Large Corporation Management Protection Act of 1979. Together with the Lockeed bailout by a Republican Administration, it would clearly establish a bipartisan policy of not allowing major employers to fail in the marketplace. Whatever the merits of Chrysler's bid for help and of the Administration's proposal, there is something unseemly about the haste with which the White House went to work. Indeed, it is hard to avoid the conclusion that a backroom deal was struck even before Chrysler made its formal request.

Prearranged or not, the Administration's aid formula is at least an improvement on the one sought by Chrysler. The company wanted a $1 billion advance against the tax credits it is earning by operating in the red. Mr. Carter suggests, instead, $500 million to $750 million in Government-guaranteed loans. The cash advance would leave the Government with no claim on Chrysler's assets if the company eventually went bankrupt. Guaranteed loans, on the other hand, would give the Government the status of a senior creditor and could be delayed until certain conditions were met.

Yet neither the Administration nor Chrysler has demonstrated that denying all would seriously damage the economy or other national interests. Examination of this premise thus falls to Congress. To make the argument for aid compelling, it needs to ask how many jobs will be lost if Chrysler goes belly up or is sold to another company. Almost 26,000 Chrysler workers have *already* been laid off. How many workers does Chrysler envision if it receives Federal aid?

The key question, though, is whether Chrysler could be sold to a foreign manufacturer. The Administration's hasty response has unfortunately clouded that issue; it has removed the incentive for Chrysler's management to look seriously for a benign takeover.

It also needs to be asked why the hard-strapped corporation continued to pay dividends right into 1979 and why its management should be expected to make wiser decisions in the future. Chrysler's share of total car sales has been declining for a long time. Since smaller companies have been able to meet the American mileage and pollution requirements that Chrysler says it found unmanageable, management seems to have a lot to do with its misfortune.

Whatever damage is foreseen from denying Chrysler special help will have to be weighed against the damage done by a bailout. If large corporations are not allowed to fail, competition in America will have been replaced with the worst of all systems—state support for the least efficient private producers.

[From the New York Times, Aug. 20, 1979]

Chrysler Foes and Supporters

(By Clyde H. Farnsworth)

Mail to Congress, aides report, is running against a Federal bailout of Chrysler. Administration officials say they are waiting to see what kind of plan the company puts forward for getting back on its feet before deciding whether or not to help. There is not, one Administration official emphasized, a favorable predisposition on the part of the Government to help. Reports to the contrary are wrong, he insisted.

Federal loan guarantees, following the pattern set in the 1971 rescue of the Lockheed Corporation, are still seen as the aid mechanism, if Chrysler can provide the numbers to show that leaks in its cash flow will be plugged.

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The company has been asked to project its cash flow and the market share it needs to break even. Its hopes center on a small front-wheel drive car that may be unveiled next year, that is, if Chrysler stays afloat.

Chrysler has manufacturing operations in 13 states, most of whose legislators are expected to support the aid effort. An early head count shows that all Democrats on the Senate Banking Committee except its chairman, Senator William Proxmire of Wisconsin, who voted against Lockheed loan guarantees, would support loan guarantees for the corporation.

The United Auto Workers is expected to use its muscle to keep Chrysler alive, but there is a powerful alliance against Federal help. Those opposed include such unlikely bedfellows as Thomas A. Murphy, chairman of the General Motors Corporation; Ralph Nader, the consumer advocate, and Alan Greenspan, President Ford's chief economic adviser, Mr. Greenspan argues that guarantees to Chrysler would fly in the face of the principles of free enterprise.

Meanwhile, the Ownership Campaign, formed to promote worker shareownership of American business, is backing a Virginia industrialist, James Burch, as its 1980 Presidential candidate.

While his chances may be minimal, some note that the organization took over the South Bend Lathe Company in 1974 when it was about to fold, and through bank loans and an innovative labor contract, made it into a successful employee-owned business. They wonder whether there is a lesson in all this for Chrysler.

[From the New York Times, Oct. 25, 1979]

U.S. Said To End Chrysler Aid Ceiling

The Government has abandoned the $750 million ceiling on its proposal for aid to the Chrysler Corporation, the head of the United Auto Workers said today.

"The Treasury Department will not be going in with any specific amount when it introduces legislation to aid Chrysler," said Douglas A. Fraser, president of the union. "I think that is much better."

Chrysler originally asked for $1.2 billion in Federal loan guarantees. Under pressure from Treasury Secretary G. William Miller, the company reduced its request to $750 million.

Mr. Fraser spoke with reporters before resuming contract talks with the financially ailing No. 3 auto maker less than 24 hours before the Thursday noon deadline for reaching a new contract. He had just returned from Washington, where he met with Vice President Mondale and Mr. Miller.

Mr. Fraser said he was particularly concerned that the lower figure sought by Chrysler might mean the company would have to sell profitable operations such as its gear plant in Syracuse and its electronics plant in Huntsville, Ala.

The U.A.W. president said the Treasury's bill might be introduced as early as next week.

Mr. Fraser said it was possible that Congress might be asked to set the amount within broad limits or leave the amount up to the executive branch.

The union leader said the Vice President and others he spoke with were "anxious that agreement be reached" in the contract negotiations.

Chrysler's 110,000 production workers in the United States and Canada apparently are going to have to settle for less than their counterparts got at the General Motors Corporation and the Ford Motor Company.

Some 29,000 of the Chrysler workers are on indefinite layoff.

RIEGLE INTRODUCES AID BILL

Senator Donald W. Riegle Jr., Democrat of Michigan, today introduced legislation to allow Federal land guarantees of up to 10 years to keep the Chrysler Corporation from going bankrupt.

Representative James Blanchard, also a Michigan Democrat, later told reporters the Administration had assured him it would support some form of Federal aid to Chrysler and would disclose the details by the end of the month.

Under the Riegle bill, a committee composed of the Secretaries of Commerce, Labor and Treasury would have authority, until the end of 1983, to extend loan guarantees to Chrysler that would run for as long as 10 years. He proposed that Congress set a ceiling on the amount of guarantees after holding hearings.

The three-member committee could extend the guarantees if if found that the company needed loans, that lack of such loans would adversely affect the economy or employment in the United States or a major region of the country, that credit is a

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not otherwise available and that a lender would not make loans without a government guarantee.

The bill would provide that 25 percent of the loan guarantees be extended through an employee stock ownership plan. It also would provide for government audit of Chrysler books and other protections.

[From the New York Times, Nov. 12, 1979]

WEEPING, WHILE WINKING, FOR CHRYSLER

Treasury Secretary Miller offers a novel argument for the $1.5-billion Federal loan guarantee to the Chrysler Corporation. Without such a bail-out, he contends, the Treasury stands to lose $2.75 billion in taxes and extra payments for unemployment compensation. If that is the quality of accounting on which the Administration depends, his case may be worse than we thought.

As we have said before, there may be an argument for Government aid, as a last resort, after Chrysler's bank creditors, suppliers and unionized workers show themselves ready to contribute more to their own rescue. But Mr. Miller adds to the impression that the politics of this situation pushed the Government into some hasty economic analyses.

If the issue were simply how to protect Federal revenues, the answer would in fact be clear; give Chrysler no help whatever. Mr. Miller's estimate assumes that a bankruptcy would halt all Chrysler production. But companies often keep running during a bankruptcy reorganization. Chrysler argues that no one would buy cars from a bankrupt but operating company. If that were so, no one would now buy cars from a company in such obvious peril.

Assume Chrysler did go out of business. Why would the Treasury lose $2.75 billion? The company's demise would not diminish the demand for cars. If Americans replace their Chrysler cars with Fords and Pontiacs, Treasury revenues would actually rise. While it is losing money, Chrysler pays no Federal income taxes; it will be writing off losses against taxes for years. Its profitable competitors, however, would pay full taxes on the cars they sell. If some Chrysler customers switched to Toyotas and Mercedes, there would be some loss in tax revenue, but nowhere near $2.75 billion. American importers also pay income taxes.

What then about those 100,000 Chrysler jobs? Well, American unemployment last month rose by *200,000 workers.* No $3-billion program has been offered them, nor anything comparable for the 6.2 million Americans currently without work. What makes some jobs worthier than others? The wages of the laid-off 200,000 were certainly lower than those paid by Chrysler, which makes them more needy. Two-thirds of the 200,000 were women and minorities, which means they are concentrated demographically as much as Chrysler's workers are clustered geographically. Minority communities are suffering teen-age unemployment of 36 percent; none of the areas in which Chrysler operates is struggling with that much hardship. The unemployment of the 200,000 is being justified as necessary to the nation's strategy for curbing inflation through recession. But if inflation is the paramount concern, unemployment at Chrysler would surely deflate the pressure on wages faster than more unemployment among black teen-agers.

Chrysler's plight is one of the nation's more difficult problems, but by no means the only problem. And everyone understands that Chrysler workers occupy an important place in Presidential politics. That hardly justifies double-standard bookkeeping at the Treasury. Mr. Miller needs a better idea.

[From the Salt Lake Tribune, Nov. 5, 1979]

CARTER CHRYSLER LOAN PROPOSAL ONLY GENERATES QUESTIONS

Senator Jake Garn, R-Utah, is quoted in the New York Times, as saying a "lot of questions must be answered before I could even consider committing public funds for loan guarantees (to Chrysler Corp.)"

Utah's senior senator will probably have considerable company in the weeks ahead as he and the rest of Congress consider the Carter administration's proposal to underwrite, to the tune of $1.5 billion, loans to the ailing third-ranking American automotive manufacturer hopes to raise from private sector money markets.

Chrysler officials are naturally optimistic they can raise the money needed to finance its new-product and corporate rehabilitation programs. "The chances of us raising the funds (about $3 billion most sources say) are good," claims Wendell W.

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Larsen, a Chrysler vice president who has been principally involved in the company's effort to gain various types of government assistance.

No doubt about it, Chrysler is sick. During the first nine months of this year it lost $743.3 million and is expected to see that losing streak hit $1 billion by year's end. It definitely needs help.

But how much, if any, of that help ought to come from Uncle Sam?

According to William Simons, a former secretary of the Treasury and a visitor in Salt Lake City last week, none of it should. An outspoken advocate of the free enterprise system, in its freest sense, he believes Chrysler ought to be allowed to die if it hasn't got the managerial acumen and collective corporate savvy to win a profitable share of the world's automotive market.

Yet, there is precedent—and a successful one—for the government's underwriting of loans to sick corporations. In 1967 the federal government agreed to shore up Lockheed Aircraft Corp. by guaranteeing $250 million worth of loans it sought from the private sector.

That endeavor paid off handsomely; getting Lockheed back on even keel and returning to the federal treasure several million dollars in loan guarantee fees.

But Chrysler wants, and the administration is proposing, loan guarantees six times what Lockheed was given. This raises the question: Would the loss of Chrysler Corp. have six times the damaging effect on the national economy and American internal and external security as the shut down of Lockheed would have had?

Another worry is prompted by reports that Americans generally are demonstrating a lukewarm, if not downright cool, reception to the 1980 model cars. This is an expected reaction to the effects of still billowing inflation in conjunction with worries over the availability and price of gasoline. Thus, with the American public less willing to buy new cars (no matter who makes them) will an already sick third rater, historically always behind General Motors and Ford, ever be able to pay back billions in loans?

This is a question would-be lenders will be asking themselves. It is the same question Congress will be required to find an affirmative answer to before agreeing to underwrite any of Chrysler's loans.

[From the Times Board of Economists, Sept. 11, 1979]

CHRYSLER: WHO WILL FOOT THE BILL?

(by Robert Lekachman)

AUTO FIRM'S SITUATION NOT UNIQUE

Chrysler is neither the first major American corporation nor is it likely to be the last to be threatened by bankruptcy. Lockheed as a ward of the Pentagon was rescued by loan guarantees. Although the Penn Central was allowed to declare formal bankruptcy, its essential routes were of course maintained.

Chrysler's major product, passenger vehicles, can be readily replaced by General Motors, Ford, and imports from Germany and Japan. In other words, why not let Chrysler pay the appropriate penalty for its managerial deficiencies? Well, for one thing, Chrysler even in decline is this country's 10th and the world's 14th largest industrial corporation. In 1978, a peor year, Chrysler still managed to ring up sales of $13.6 billion. However, the company's bad bet on gas guzzlers after 1973 reduced its market share in the first half of this year to 9.2%, crowded dealers' lots with tens of thousands of unsaleable full-sized cars, compelled many of its dealers to give up the ghost, and led to thousands of layoffs of its own workers and spreading job losses in related industries.

In 1979, prospects are excellent that the company will chalk up an all-time record loss in a single year for an American enterprise, not the Guiness Record for which President Lee A. Iacocca has been striving. If he is to turn his new employer around, he urgently requires masses of new capital, anywhere from the $1 billion the company sought as tax benefits to the $5 billion to $7 billion some outside observers estimate.

What to do? Rescue or don't rescue? Opinion pro and con is interestingly aligned. Fortune and the Wall Street Journal join The Washington Post's liberal economic columnist, Hobart Rowen on the no rescue side of the issue. If poorly led companies aren't allowed to pay an appropriate price, what is left of free market capitalism? Such also is the view of former Treasury Secretary W. Michael Blumenthal who adds the thought that Volkswagen might pick up the pieces and General Motors' Chairman Thomas Murphy who has expressed the unbounded affection for unbri-

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dled competition to be expected of the head of an organization which has cornered 57% of its own market.

Chrysler's would-be saviors are equally varied. They include United Auto Workers President Douglas Fraser who was sufficiently enraged by Murphy's position to term him a "horse's ass", the second time this summer that this portion of the human or equine anatomy has figured prominently in national news; Michigan's two liberal Democratic senators, Donald Riegle and Carl Levin, and the Carter Administration. Congress has been on vacation but now that it is back it seems likely that in the end that body will approve loan guarantees in the $500 million to $700 million range Treasury Secretary G. William Miller has tentatively proposed.

It is difficult to identify a realistic alternative. When President Carter made Paul A. Volcker, a famous advocate of sound money and opponent of inflation, Federal Reserve chairman he signaled willingness on the part of his Administration to accept a 1979–1980 recession, now evidently in progress. By the estimates of Carter's own economists, unemployment may rise above 8%. This is scarcely the time to allow the ripple effects of a Chrysler liquidation to add another half percentage point or more to that politically dangerous figure. No doubt, in the long run many laid-off Chrysler workers would find new jobs with Ford or General Motors. Life continues in the short run and at very best calamity for Chrysler translates into serious economic trouble for tens of thousands of blue- and white-collar employees and a great many dealers and suppliers.

The moral ought to be unmistakable: public opinion which tends to be pragmatic rather than ideological is more worried about jobs and incomes than the purity of the competitive system. As a general proposition, businessmen and their employees are prepared to accept only favorable market verdicts. Our dangerous and stubborn inflation has many causes, but not the least significant has been the responsiveness of politicians and their constituents to producer demands for shelter from the blasts of competition. The list is long. Beef quotas assist cattlemen, sugar quotas keep in business high cost domestic cane and beet sugar growers, trigger prices prevent further losses of markets to Asian and European steelmakers, orderly marketing arrangements keep out of our domestic market textiles and garments from Japan and other low cost producing centers, and so on and on.

It is time to recognize that, in practice, the national doctrine of free competition is still applicable mostly to the rivalry of small and medium-sized retailers. For larger enterprises and for threatened industries, the truth has been for quite a while that government and business have become partners, however loudly both parties may protest against this charge.

The time has come to ask whether the public gets a fair shake when, as in the Chrysler case, its government commits tax revenues or the federal credit to a privately owned entity. Perhaps, as the UAW has suggested employees ought to be represented in management. Possibly, government should take an equity position in the corporation, as, I have suggested in an earlier column, might be appropriate in the energy field as a substitute for windfall profits levies.

Of one thing, we can all be certain. Just as similar situations will occur in the future, so also will these issues of shared financing, control, and benefit, between government and corporate enterprise.

[From the Wall Street Journal, Sept. 4, 1979]

Chrysler Bailout: Rewarding Failure?

(By David A. Stockman, U.S. Representative from Michigan)

Until recently, Britain's economy staggered under the combined weight of public policy errors it refused to correct and private economic failures it repeatedly pardoned by tapping the Exchequer. The Chrysler case presents an uncanny parallel. After a decade of poor management, its balance sheet and competitive status have undergone drastic deterioration. Now it grasps for breath under the added handicap of coping with egregiously bad public policies.

Unfortunately, Washington's "fixers" insist on ignoring the resemblance, suggesting that the task at hand is merely to "engineer a rescue." But if we are to avoid the arthritic condition that has crippled Britain's economy, we must seek a solution to the Chrysler case that involves the rectification of mistakes rather than the indemnification of their consequences. In practice, this means the expeditious revision of offending public policies and a commensurate effort on the part of Chrysler to remedy as best it can its failures.

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The latter are obvious enough. For more than a decade. Chrysler bled its balance sheet with foreign acquisitions that produced more losses than new markets. Its domestic diversification efforts yielded a similarly large crop of lemons. Meanwhile, its domestic auto market share plummeted by 37%, as it consistently got to the showroom with too little too late.

By the close of 1978, Chrysler's lone remaining competitive strength was in the non-passenger vehicle market—vans, pickups and recreational vehicles. It had captured over 30% of the van market in recent years, compared to just over 10% of passenger auto sales. But vans share a common trait with tourist areas distant from the major cities: Sales plummet spectacularly during periods of temporary gasoline unavailability. Chrysler's July van sales were off 65% from the previous year, compared to a 9.6% decline in total U.S. auto industry sales.

There is ample evidence that it is fear of unavailability—being stranded—rather than higher fuel prices that have caused drastic slumps in the leisure-oriented vehicle market. Long gas lines and buyer panic are not an inherent result of temporary crude oil shortages such as that of last spring, however. They are instead the consequence of a Federal price and allocation system that diverts supplies away from the retail pump and forces dealers to take profits by drastically compressing sales hours rather than raising prices.

INVENTORY FINANCING CHARGE

The "hidden" costs of these controls are large and diffuse. But among them is a significant part of Chrysler's $2 million weekly inventory financing charge, of which half represents pastures full of vans, pickups and RVs.

This does not imply that the Federal government owes Chrysler an indemnity for damages. Resort owners, restaurants, motels, and even lobster fishermen experienced similar losses during the April-July gasoline availability scare. But it does suggest that Chrysler's ability to survive—with or without aid—would be substantially enhanced by removing the disruptive tripwire of Federal allocation from the gasoline marketplace. The Ayatollah will not be the last person to interrupt the flow of tankers.

It would not be impossible for a $13 bilion corporation such as Chrysler to turn the corner despite an accumulation of self-inflicted and policy-induced wounds. Unfortunately, the corner is blockaded by regulatory barriers that will prevent Chrysler from legally selling a single car during the 1981-83 period unless it is equipped with air bags and three-way catalysts and is capable of attaining fuel enconomy nearly 40% better than present mileage by the latter year.

Compliance with these requirements necessitates far more than adding a few pieces of new equipment. They are in effect a mandate to completely redesign every vehicle in the product line simultaneously. These radically new vehicles require not only massive expenditures for research and development and production launch, but new engine, transmission and stamping lines, and the wall-to-wall gutting and replacement of assembly facilites. In short the convergence of regulatory requirements has collapsed the normal 15-20 year cycle for complete turnover of all product lines and manufacturing facilities to just five years.

Chrysler would have been hard-pressed to finance the needed capital spending—estimated to be 50% higher than the normal trend—even at its 1976-77 level of financial health. Under today's conditions it is unthinkable.

Regrettably, this $2 billion barrier to Chrysler's survival has little to do with legitimate public policy objectives. It is the result of Congress's feckless habit of enacting lofty goals and then delegating crucial policy decisions to the administering agencies. A handful of long overdue policy changes would drastically lower the presently mandated capital spending barrier and obviate the need for building a wheelchair ramp over it with taxpayer dollars.

The first hurdle to be cashiered should be the air bag. Its estimated cost has escalated nearly 500% in recent years. Its reliability and cost effectiveness have been called into question repeatedly, most recently by the GAO. Equipping the entire automotive fleet at a cost in excess of $50 billion will gain fatality and injury reductions that could be achieved with only a modest increase in the seat belt usage rate—from the present 20% to perhaps double that rate.

The three-way catalyst, which Chrysler will have to buy from GM, should be dumped on the same scrap heap. The further tightening of auto emissions standards in 1980-82 that makes this costly technology a requirement is simply unnecessary. With the exception of one metropolitan area, Los Angeles, current emissions controls are sufficient to bring auto-related pollutants down to levels that will more than adequately protect public health.

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In the final analysis, however, it is the fuel economy standards—which leap to 26 mpg in the next three years—that present the major capital spending hurdle. These standards embody a hopeless confusion of a desirable end (lower gasoline consumption) with an utterly miscalculated strategy for getting there.

In essence, Congress has mandated European levels of fuel economy by 1985. Yet at the same time it has rejected the European policies of high gasoline prices and weight and horsepower tax penalties in favor of maintaining traditionally low U.S. gasoline prices through controls.

But this policy dichotomy contains a fatal defect: It fails to recognize that the European auto fleet averages about 25 miles per gallon in large measure because stiff gasoline and horsepower taxes have producted a radically different mix of vehicles. Typically, 80% are four passenger or less compared to 20% here. Ninety-five percent and 81% of U.S. vehicles sold in 1978 were equipped with automatic transmissions and air conditioning, respectively, compared to less than 10% for each in Europe. Given these size, power and performance differences, it is not surprising that in 1977, GM's American fleet was 64%—1,400 pounds—heavier than its European fleet.

Studies have demonstrated that U.S. autos are actually more efficient than foreign vehicles on a pound-for-pound basis. It is thus evident that the high fleet average fuel economy in Europe is due to drastically less car, not better technology.

DISPARATE ECONOMICS OF OWNERSHIP

The European habit of buying "less" car reflects the disparate economics of ownership, not moral superiority regarding conservation. To drive a 1979 Ford LTD 10,000 miles per annum for three years would cost the average U.S. Motorist $1,690 at present gasoline and vehicle tax levels, exclusive of the cost of the vehicle itself. In France, operating the same car for three years would cost its owner $11,060—including $2,500 for the one-time value added tax. $3,600 for horsepower-based registration fees and nearly $3,000 in gasoline taxes.

The burden the "Europeanization" policy places on the auto companies is obvious. They must double average fuel economy to satisfy the Congress, but sell essentially the same American fleet in terms of size and performance to satisfy the public. This gap can be closed only by means of an unprecedented technological, engineering and manufacturing revolution that can squeeze unchanged product utility out of 50% less fuel.

But the hemorrhage at Chrysler is only one sign that our current national policy of attempting to reduce gasoline consumption only by improving the fuel economy of new cars is not working. More telling is the fact that while new car fuel economy certified by EPA has increased over 40% since 1973, actual on-road fuel economy for the entire fleet of personal vehicles has not increased at all. This reflects the fact that new cars are built to the government test procedure rather than actual use patterns; that a rapidly increasing share of the fleet is comprised of low-fuel-economy pickups, vans and utility vehicles; and that old cars are being retired less rapidly.

Congress needs to suspend the fuel economy standards not only to save Chrysler, but to permit a return to the drawing boards to rethink the whole strategy. Legislated technology forcing is now running smack up against the laws of physics and economics, and the practical logistics of the auto production system. Far more than Chrysler's survival as a full-line manufacturer is at stake.

[From the Wall Street Journal, Sept. 20, 1979]

CHRYSLER AND THE SMALL-CAR MORALITY FABLE

(By B. Bruce-Briggs)

Chrysler's request for federal financial assistance has provoked debate about the assignment of responsibility for its present sorry fix. The corporation points the finger at government regulations, while the "consumerists" blame management mistakes. Any disinterested observer would grant that management has erred, because everybody errs, and would recognize that government regulations necessarily fall more heavily on smaller than larger manufacturers.

But the tab for safety, emission and bumper standards, annoying as it may be, is trivial compared with the costs of "down-sizing" cars to meet the "corporate average fuel economy" (CAFE) requirements of the Federal Energy and Conservation Act of 1975. Here Chrysler is accused of being especially remiss, even antisocial, in concen-

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trating on big gas-guzzling cars when it should have anticipated public demand for small cars. This charge so annoys Chrysler that a good part of a recent advertisement was devoted to an attempt to refute it.

Actually, both the accusation and the defense are mistaken. Chrysler's difficulties can be attributed to its past concentration on small cars, the wrong small cars at the wrong times.

Walter P. Chrysler was one of the great business geniuses of this century, and was the most striking business personality of the boom years of the 1920's. He left GM in 1920, saved the crippled Willys-Overland Co., took over moribund Maxwell-Chalmers, gave it new products and his name, annexed Dodge, and, most marvelous of all, in 1928 introduced a new line, the Plymouth, which became the only successful competitor to Ford and Chevrolet in the low-price field. All this in the depths of the Depression. When Mr. Chrysler died in 1940, his corporation was the number two auto manufacturer in America (and the world) holding a firm 25 percent of the market.

Walter Chrysler departed GM just before it instituted its famous committee management, and his career illustrates the rule that one good man can beat a good committee, but also the rule that you cannot count on having one good man. His successors illustrated the rule that good lieutenants do not necessarily make good captains.

In the late 1940s and early 1950s Chrysler's management determined that what Americans wanted were smaller sensible cars. The specifications of a Plymouth or Dodge of that era are almost exactly those of a "compact" of 20 years later. To be sure, other manufacturers had the same idea—Crosley, Hudson, Kaiser, Studebaker and Nash.

In 1953, Chrysler down-sized its already small cars. In July of that year, Ford began its "blitz" to regain the number one spot from Chevrolet (an important blitzer was a hotshot young salesman named Iacocca), GM countered, the independents went to the wall, and Chrysler's market share had plummeted to 12 percent by 1954. Chrysler has never fully recoverod from the management mistake of concentrating on smaller cars in the early 1950s.

New management turned to massive finned Leviathans and saved the corporation, but only regained a fraction of the lost market share. And, under the pressure of the Rambler and Volkswagen boom in the late 1950s, Chrysler continued heavily in smaller cars—even though the small-car craze never represented as big a market as present-day legend would have it. (In 1959, only 16 percent of sales were of smaller cars.) Throughout the Sixties, 24 percent of Chrysler's production was compacts, versus 18 percent Ford and 13 percent for GM.

Chrysler was consistently profitable throughout the Sixties, but less so than its competitors. So in 1969, Chrysler faced a difficult choice: follow Ford's Pinto and Chevy's Vega into the subcompact market or push for a larger share of the big-car market. Due to its heavy involvement in the less profitable compacts, Chrysler could's afford to do both. Management chose to go for the bigger, more profitable cars, as well as for the emerging recreational vehicle market.

The timing, of course, couldn't have been worse. OPEC, the Arab oil embargo and the ensuing energy crisis led to the 1975 energy act, requiring a product mix dominated by subcompacts, cars Chrysler did not make.

Now, it should not be thought that Chrysler had ignored the subcompact market. Indeed, it made heroic efforts by gaining its own captive imports. Here we have to back-track. Ford and GM, faced with the specter of domestic saturation, had begun to expand abroad in the 1920s. They surely regretted this premature expansion during the Thirties and Forties, but were well placed for the European auto boom of the Fifties and Sixties.

Chrysler got into the European market late, and made unfortunate acquisitions—the Rootes Group, makers of the infamous Hillman Minx and like products, and the equally notorious Simca. It was quite impossible to sell these to Americans, and became increasingly difficult to sell them to Englishmen or Frenchmen. Chrysler built small cars, the wrong small cars.

Fortunately, Chrysler also made a link to the East. The Japanese government permitted the company to buy a minority share of Mitsubishi, whose products have sold well under Dodge and Plymouth labels. Alas, the 1975 energy act does not permit imports to count toward the corporate average fuel economy. Chrysler offered a good small car, but from the wrong place.

Yet Chrysler now receives the brunt of opprobrium aimed at "gas-guzzlers." Apparently the finned goliaths of the late Fifties have left a permanent scar on the psyche of the American intelligentsia. The 1959 Cadillac, the haughty bearer of the most stratoshperic fins of all, appears in the recent film "The Deer Hunter" as a

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symbol of proletarian vulgarity and in "The Muppet Movie" as emblematic of predatory capitalism.

Chrysler's spokemen are well-advised to try to cleanse the corporation of the "gas-guzzler" smear, and cannot be expected to remind us that the present predicament largely derives from not building enough gas-guzzlers at the right times in the past. But whether or not the national interest demands federal financial assistance to Chrysler is an issue that should be decided without recourse to an anti-big car morality fable.

[From the Wall Street Journal, Sept. 27, 1979]

CHRYSLER AND FEDERAL REGULATION

(By Paul A. Heinen, vice president, general counsel, and secretary, Chrysler Corp.)

Studies of the automobile industry, sponsored both by government agencies and by outside parties, agree that government regulations have placed a substantially greater burden on Chrysler, because of its smaller size, than on its larger competitors. In effect, government has taxed the lower income earner a higher per unit rate than the higher income earner. Neither The Wall Street Journal nor, to my knowledge, anyone else who has any understanding of the industry disputes this.

However, if I understand correctly the Journal's position, and that of a number of other supporters of the free enterprise system, it is as follows: Government product regulation of the automobile industry has placed a greater proportional burden on Chrysler than on its larger competitors; this is unfair and it has harmed Chrysler competitively; however, it would violate free market principles for the government to assist Chrysler by partially compensating it for some of the harm government has done.

I submit that for the government not to do so is an even greater violation of free market principles.

I, too, abhor government distortion of the marketplace, not only because the free market system is the most efficient allocator of resources, but also because its ethical base is most consistent with the long run survival of a free society. However, I find no ethical base to a position that admits to unequal treatment by government of its citizens, but then condemns any steps by government to compensate for that unequal treatment.

If this is the position of the defenders of free enterprise, then the battle will surely be lost to those who would regulate our lives and leave us completely dependent on government for its favors. It places no check on them, because it relieves them of all economic responsibility for their actions. Others, in this case Chrysler employees, dealers, suppliers and stockholders, must bear the consequences.

It is not surprising that in taking the position you have on this issue, The Wall Street Journal, probably for the first time in its history, finds itself on the same side as Ralph Nader. While this does not necessarily destroy the validity of your conclusion, it might give you pause to wonder.

[From the Wall Street Journal, Nov. 13, 1979]

THE CHRYSLER NONSOLUTION

Congressman have been heard to complain recently about the decling competitiveness of American industry. When you look at the current profit positions of autos and steel the worries seem well-justified.

We can think of a list of things they could do to improve matters-important things rather than the pennyante, uncontroversial, ineffectual panaceas Congressmen prefer. They could cut taxes across the board, reduce income trnasfers, deregulate oil and gas forthwith without adding taxes, remove blockages to use of coal and nuclear energy, etc. And while we're at it, they could reject the administration's proposals for $1.5 billion in loan guarantees to Chrysler.

Some Congressmen think a Chrysler bail-out would signify their concerns for business and balance against the political attack they are conducting against the oil industry.

But while congressional generosity towards idustry is more to be welcomed than hostile demagoguery, it is no more of a solution to American industry's problems. In

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a world of increasingly tough business competition, the only way for Americans to be sure of good, secure jobs is through efficient use of capital resources. That means allowing market forces to channel capital to managers who can make the best and most efficient use of it. Every form of congressional intervention, whether it be punitive taxes, price regulation or credit allocation, reduces that efficiency.

Let's look at what it means when Chrysler needs credit allocation in the form of loan guarantees to pay its bills and finance its investments. The most sophisticated capital markets in the world are saying flatly that they don't have enough confidence in Chrysler's future market position, relative to other investment opportunities, to put their money up. They doubt that Chrysler—at least under present management and with its present investment plans—can sell enough cars, at high enough prices, to pay projected labor and capital costs.

It's possible, of course, that federal guarantes can stave off bankruptcy, though the proposition is likely to be expensive. Over the last two years, Chrysler's losses and cash requirements have steadily turned out to be greater than expected. In only three months, the administration has had to double the amount of guarantees it's offering Chrysler, and Treasury Secretary Miller admitted the other day that even the $1.5 billion can't assure the company's solvency. The "recovery plan" is based on some optimistic assumptions, among them ample availability of gasoline, no recession and a sharp increase in Chrysler's market share. Should any of these assumptions not hold up, the government will be obliged to pay dearly to honor its guarantees.

What will have been achieved if Chrysler does manage to wobble on? In the face of Japanese, European and U.S. competition, Chrysler still will have trouble selling cars. Workers' jobs still will be in jeopardy. Meanwhile capital will be diverted from other enterprises that are more likely to succeed competitively, and the jobs at those firms won't be available.

What's more, the politics accompanying a Chrysler guarantee will make it almost impossible for the company to take the necessary steps to survive. For the company to be able to produce at all competitively, most analysts argue it will have to abandon many of its old plants; streamline many of its operations, and perhaps even give up trying to be a full-line producer. Widespread layoffs may therefore be crucial to a genuine Chrysler turnaround. But Vice President Mondale has been trying to cultivate the United Auto Workers in preparing for next year's elections. We don't know what commitments he has made, but we'd be surprised if the UAW, which has already countenanced some layoffs, would put up with many more.

Key Congressmen, meanwhile, are trying to peddle their favorite nostrums as a condition for supporting guarantees. Russell Long, chairman of the Senate Finance Committee, insists that Chrysler provide a stock ownership plan for employees. Henry Reuss, chairman of the House Banking Committee, wants to force the company to produce mass-transit vehicles. And Congressman Green of New York talks of the government taking an equity position. None of these gentle proposals would make Chrysler more competitive; instead, they would restrict its flexibility.

Senator Proxmire has a better idea: bankruptcy. It's not as harsh a solution as it sounds. While sellig off some of its assets, the company would be able to continue many of its operations as it worked out a plan to pay off its debts. It's the best way to cut the company's losses quickly. And with this sobering experiences as a guide Congress could face up to its own responsibilities and begin taking imperative steps for restoring the vigor of American industry as a whole.

[From the Washington Post, Aug. 23, 1979]

CHRYSLER: TOO BAD

(By Hobart Rowen)

If the federal government mistakenly bails out the Chrysler Corporation, where will the process end? In no more than a few years' time, Uncle Sam may discover that the precedent will force it to rescue the Ford Motor Co., and in between, there could be a slew of businesses lining up at the public trough.

The hard fact is that Chrysler is in trouble because it refused to read the handwriting on the wall. The company's managers gambled, in effect, that the 1973 oil crisis, which caused the 1974-75 recession, was an aberration—and that the average family would find plenty of oil to support the large (and profitable) gas-guzzlers Chrysler chose to produce.

The Iranian revolution—and the way that OPEC capitalized on it—produced the gasoline lines of early spring, 1979, and turned the Chrysler strategy into a night-

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mare. Now, the company is caught with a huge inventory of full-sized cars and vans that few sensible people want, and a staggering $260 million first-half loss.

Worst of all—and this is why Chrysler dealers despair—Chrysler won't have a large volume of smaller cars to sell until 1981. Red ink will be Chrysler's main product for all of 1980.

Ford, meanwhile, has its head above water only because—as Business Week noted last week—it makes about two-thirds of its money overseas. Domestic profits have been cut in half. Ford is almost as badly prepared to compete with General Motors and foreign small-car makers as Chrysler.

Neither Chrysler nor Ford believed, last time around, that the energy crisis was here to stay. Only General Motors, among the Big Three, got religion by building an American subcompact, while slimming down the rest of its big car lines.

When I was reporting on the situation in the spring of 1975 in Dotroit, Ford controller Kent Morrell said to me: "GM is making a big gamble. They're putting a big bet on one end of the market. I think they may be wrong."

But GM was exactly right. As for Chrysler, the then chairman, Lynn Townsend, told me there were no immediate plans for a domestically made subcompact. He was putting his money, instead, on heavy production of medium-sized Dodges and Plymouths.

What it comers down to is that Ford and Chrysler decided not to go head-to-head against the Datsuns, Toyotas, VWs, and the GM Chevette. It was a bad decision—and Chrysler, being the smallest of the Big Three, is the first to pay the price.

While on vacation these past two weeks, I've read a lot of nonsense about the extent to which environmental and other government regulations have been a prime cause of Chrysler's problems.

But if Washington had not forced Detroit into gasoline economies, U.S. consumption of oil products would be even more wasteful than it is now. And domestic manufacturers would have yielded an even bigger percentage of the whole automotive market to foreign competitors.

Neither the mileage nor the pollution standards have yet brought any producer other than Chrysler to its knees.

The critical question, of course, is what the government should now do, if anything, about Chrysler's screams for help. Treasury Secretary G. William Miller has indicated that Washington will not forgive or postpone taxes, but might offer loan guarantees. The unofficial word is that the United States would guarantee $500 million to $750 million in loans, presumably in the fear that to do otherwise would jeopardize jobs—a bad thing to do with a national election coming up next year.

But there is good reason to believe that if Chrysler is allowed to go belly-up, its facilities will be acquirod by other companies (domestic and/or foreign), and that virtually all of the workers will get jobs producing cars or products for some other companies.

An analysis by Townsend-Greenspan, Inc., headed by Alan Greenspan, economic adviser to former President Gerald Ford, indicates that a Chrysler failure would have little effect on the economy as a whole.

Put as crudely and bluntly as possible, a Chrysler bankruptcy would hurt only Chrysler's managers and stockholders. The managers deserve nothing better. The stockholders, who buy shares knowing that sometimes they go up and sometimes down, have already taken a beating—from around $80 to $8 a share in a year's time.

Some of those losses are picked up by the federal government, in any event, as offsets against capital gains. Beyond that, there is no justification for the Carter administration to yield to pressures from either the company or the auto workers' union. Nonetheless, it clearly will take unusual fortitude for the Carter administration, at a desperately low point for other reasons, to make such a gutsy decision.

[From the Washington Post, Aug. 31, 1979]

The Taxing Business of Saving an Ailing Chrysler

(By Nicholas von Hoffman)

Adversity doth make liberals of us all. John J. Riccardo, chairman of the board of Chrysler Corp., has come out for the principle of progressive taxation while complaining that federal regulation of his industry make a smaller company like his pay just as much for air pollution devices as a richer one like General Motors. The regulatory load falls unevenly on us and affects us like a regressive tax," says Riccardo.

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Riccardo is correct. Regulation frequently favors large corporations over their smaller competitors, but those who might like to save Chrysler by abandoning automobile emission standards are thinking like people who wear bearskins and club rabbits for food. We need clean air, but when the American automobile manufacturers wanted to pool their engineering and development costs for such government-mandated features, Washington took the position joint development would violate the antitrust laws.

It's a mite lunatic to use the antitrust laws to enforce a government regulatory process in such a way that you reduce competition in an industry. It might make better sense to require industry-wide pooling of research and development for environmental purposes. That way cost could be shared "progressively" with DuPont paying a higher percentage than some small, regional paint or insecticide company.

It remains to be seen if permitting collusion in this area would result in lower and more fairly shared costs, which would be passed on to the customers, or if the system would be used to intiate a new form of commercial pillage, One hopes the latter is not the case because it seems asininely wasteful to insist that every company independently perfect a clean air device or a safe herbicide.

Another plaint that sounds startling in the mouths of businessmen is that Chrysler should be saved by the taxpayers to preserve competition in the auto industry. Ordinarily, businessmen contend the government need not worry its bureaucratic head about promoting competition and discouraging monopoly.

Yet the primary reason Chrylser has fallen on bad times is that it made bum business judgments and its competitors didn't. In actuality, with or without Chrysler, the auto industry is hotly competitive. Besides General Motors and Ford, there is Datsun, Volkswagen, Renault, Fiat and on and on. Given the price of any car, even a cheap one, the competition and variety in the auto industry are unbelievable.

Today, the arena of competition in this industry is world wide. Saving Chrysler to save competition would only make sense if we were contemplating barring the importation of foreign cars. A growing number of people would like to do that. However, depriving our major trading partners of access to the gigantic Amercian market would change the world economic system and put an indescribable strain on our network of alliances. It might also set off retaliatory moves against Amercian car manufacturers abread. Further, foreign cars are beginning to be made here. The "German" Volkswagen is manufactured in Pennsylvania; its expected that in a few years, the Amercian Motors plant in Kenosha, Wisc., will be chunking out Renaults.

Another argument some businessmen are pushing (in fairness, many don't favor putting Chrysler in a government-paid-for, intensive care unit) is saving the company to save its employees' jobs. Listening to some of them would make you believe they are late converts to the Humphrey-Hawkins Full Employment Act.

Saving Chrysler to save jobs opens the way for every wheezing conglomerate behemoth to swim, spouting and tail-flapping, up on the beach to gasp for federal aid. We've got a lot of super-big, mismanaged corporations.

For years when people have complained about the size of some of these outfits and suggested changing the antitrust laws to limit them, businessmen have screamed, "Don't penalize bigness for its own sake." Now it appears bigness is going to penalize us.

Since there will inevitably be other Chrysler-sized flops, we're open to more social blackmail. It is not necessary to subsidize and reward Chrysler's managerial folly in order to save its innocent employees. They can be directly assisted by helping them move to other places, covering their mortgages, retraining them, guaranteeing their pension fund. The motto should be: Save the people, let the company look after itself.

[From the Washington Post, Sept. 2, 1979]

A Stake for Workers in a Chrysler Bailout

(By Bruce Stokes)

The Chrysler Corporation wants the government and the United Auto Workers to bail it out. But how is the public to be sure the company will not continue to build gas guzzlers that nobody will buy?

If the treasury is to guarantee the loans needed to keep Chrysler afloat, then the government should have representatives on the company board of directors. If auto workers are to hold the line on wage increases, then they also should have representatives on the board to protect their interests. And if the company is to have

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higher productivity and better management in the future, then Chrysler's workers should have the opportunity to participate in ownership and management of the company.

To ensure reform at Chrysler, the government could require that the loans it guarantees be used to set up a trust for employe stock ownership. This would give Chrysler workers a future say in managment and greater incentive to boost lagging productivity and to reduce absenteeism, problems that plague the auto industry.

Such a plan would look something like this:

Chrysler sets up a trust that uses government guarantees to borrow money from private banks. The trust gives the money to the company in return for an equivalent amount of common stock. Every year Chrysler gives part of its profits to the employe trust, which sends the profits on to the bank to repay its loan. As the loan is repaid, the trust allocates stock to company employes. Workers could sell their stock, but only back to the trust, so that shares would remain in the hands of employes.

For Chrysler, an employe stock ownership loan is cheaper than raising money on the open market, because corporate profits used to repay such a loan are tax-deductible. Since the company is in the 50 percent tax bracket, it would normally need to have profits of about $2 billion to pay back a $1 billion loan. Channeling the loan through an employe stock ownership trust enables Chrysler to raise the new capital it needs virtually for free. The price it pays is allowing workers to have some say in managment and ownership.

Chrysler would not be the only major company with partial employe ownership. Such prominent corporations as Mobil, Wyerhaeuser and Atlantic Richfield have employe stock ownership programs, although without government or worker representatives on their boards. In fact, the Employe Stock Ownership Council estimates that there are 3,000 employe ownership programs throughout the country.

Even the idea of tying government assistance to employe ownership is not new. In 1975, for instance, the Economic Development Administration of the Commerce Department lent $5 million to a trust set up to save South Bend Lathe in Indiana, one of the nation's leading machine-tool producers. The company is now prospering, thanks in part to higher worker productivity, better quality work and fewer worker grievances, according to a University of Michigan Institute of Social research study.

As the Chrysler loan is paid and wages unfrozen, government and union representation on the board of directors could be phased out, to be replaced by directors elected by the new employe-owners.

Labor representation in the corporate board room, even without the prerequisite of stock ownership, is commonplace in other industrial countries. Labor holds half the seats on the supervisory beards of nearly 700 West German firms, encompassing more than 5.6 million workers. The European Community will soon require any company wishing to incorporate as a European rather than as a nationally chartered organization to place workers on its board.

While the idea may sound a bit radical for a large American corporation, worker participation may be an issue on which the public is ahead of its politicians and social activists. A 1975 Peter Hart poll found, for instance, that two-thirds of those questioned would prefer to work for a company in which employe owned stock and appointed company management, and that half thought such an arrangement would improve the economic condition of the country.

There is no way to know for certain if government and labor participation in Chrysler's management can turn around an admittedly sick company. But the time may have come when having labor and management on opposite sides of the table, with government standing aside as a referee, is a luxury we cannot afford. it is interesting to note that the economists used by the labor representatives on Volkswagen's board were better at predicting car market trends in the early seventies than the company's own analysts. In addition, studies by Michigan's Institute of Social Research show that the more equity workers own in a company, the greater the profitability of the firm. And since auto industry productivity increased a dismal 0.2 percent between 1977 and 1978, giving workers a greater stake in the company and a say in management could give a badly needed boost to productivity.

An employe stock ownership loan, partial worker ownership and public and labor representation on the board of directors are not the sole answers to Chrysler's problems. The die may already be cast due to past mismanagement and the economic downturn. But the Carter administration seems intent on a bailout and there will be heavy pressure on Congress to follow suit. It is likely that the UAW will have to make contract concessions to demonstrate a willingness to do its fair share to save jobs. If so, the best way to protect public and workers' interests while reviving

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Chrysler is to give both groups some management responsibility. The company's track record suggests the Chrysler management needs all the help it can get.

[From the Washington Post, Sept. 9, 1979]

First Chrysler—and Then?

(By Brock Adams)

One of the consolations of private life is the ability to offer controversial advice without fear of having to take it. With this in mind, I agreed to offer up some thoughts to my former colleagues through the good offices of The Washington Post.

There is little doubt that the Congress faces a confluence of energy and economic decisions that are as politically divisive as they are popularly demanded, and more rides on the outcome than the politics of 1980. At stake are the economics of the next decade, wherein we must decide as a nation whether we will try to rebuild our aging industrial and technological base or continue the retreat toward a service economy.

The issue immediately at hand is the fate of the Chrysler Corporation and, like the Lockheed and Penn Central fights of the last decade, the politics are no-win. Help Chrysler and risk being party to a "bail-out"; refuse aid and leave thousands of auto workers and executives unemployed by Christmas. I believe it is the kind of choice that will recur time and again during the next decade. For while Chrysler's problems are unique in some respects, they are also common to a whole range of "maturing" American industries that will march on Washington for financial relief, the bonus army of the 1980s. Chrysler is merely the advance guard.

In fact, the entire transportation sector, about one-fifth of our gross national product, is in deep trouble. With the need to revitalize mass transit almost desperate, America has but two remaining bus manufacturers with the capacity of roughly 3,000 units per year, a quarter of what is needed. The domestic manufacturers of passenger rail cars have vanished despite increased demands by Amtrak and the new subway and light rail systems now being built. The railroad industry, which with barges and pipelines must carry the nation's long-distance freight, is in a state of near collapse, oversized and underfinanced, with remedial legislation stuck in Congress.

Even worse is the tragedy being played out in Detroit. More than 70,000 auto workers are on unemployment and soon joining them will be thousands of middle-age executives who determined perhaps 20 years ago, in a different era, that the insular world of automobiles would provide a secure career. Where do they go now, these 50-year old men with mortgages suited to $50,000 salaries? For the American automobile industry is in deep trouble (Chrysler now, but Ford is next). And, when Detroit is in trouble, Youngstown and Bethlehem and St. Louis can't be far behind. In fact, the tentacles of the auto manufacturers reach into every state, accounting for the livelihood of 5 million people and more than $150 billion in annual trade. As autos go, so go steel, rubber, plastics, and so on. Right now, they are going straight down hill.

How do we restore the creaky transportation sector, and how can these actions be related to the deeper economic and energy concerns? As a beginning, I would offer five suggestions to the Congress:

(1) *Resist the temptation to dismiss the Chrysler problems with a quick financial fix, and instead use it as an opportunity to begin defining a new economic strategy for the 1980s.* I would give the Chrysler Corporation provisonal aid to get it over the short-term crises, but would tie a larger financial package to a policy for the entire auto industry. For, as stated, Chrysler's problems are not unique; they are generic: an aging plant, the absence of technological creativity and a shrinking market.

I would start asking the hard questions: Does the government save all industries that are big and sick? If not, what determines salvation—number of employees, kinds of products and service, effect on the total gross national product? Do we have appropriate measures of national interest? Unless we begin to face these unhappy questions now, the Congress will limp from bail-out to bail-out without any real understanding of where we are going or why. In the cases of Lockheed and Penn Central, these questions were raised but never solved. Now they must be.

(2) *Focus on the massive need for capital and how it is to be raised and invested.* If, for example, the entire windfall profits pot is to be taken by synfuels development, there will be insufficient funds to explore the potential of solar energy, modernize the auto industry and establish a construction trust fund for mass transit. The economic principle of opportunity costs is at play, and there are limits

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to the amount of money that can be raised under any scenario. We must make broad and informed judgments on how to raise and spend that capital as a total society rather than spilling it piecemeal.

(3) *Don't get bogged down in ideological battles.* Where there is a free market, let's favor free-market solutions. But let's not try to apply this solution to areas where there is no free market. Oil supply is not part of a free market. At home oil is in a corporate straitjacket and abroad it is controlled both in amount and price by a cartel.

The Department of Energy notwithstanding, not all regulation is bad where the national interest is involved. The fuel-economy regulations administered by the Department of Transportation, for example, save Detroit from an even worse disaster that it is now suffering.

(4) *Emphasize new technology.* America is in the midst of an innovation slump with research and development spending now only about 2 percent of the GNP. Nowhere is this more in evidence than the auto industry, where spending on basic research has dipped to almost nothing at the very time we need breakthroughs in such fields as the non-petroleum engines. Why not structure the Chrysler solution to produce a major national investment in new auto technology? The basic auto-research program now being negotiatied with the industry should be accelerated and vastly expanded beyond what is currently being contemplated.

(5) *Adopt solutions that truly, reflect the urgency of the energy problem—a problem that is far more serious when viewed from the perspective of supply rather than price.* That portion of our oil supply that comes from the Mideast, about 40 percent, must travel everyday in tankers through the narrow 20-mile Strait of Hormuz, which any disaster (political, military or technological) could shut down. With our econmy hanging by so thin a thread, it is only prudent tht we forge ahead with massive investment in both conservation and supply technologies. Since a barrel saved is equal to a barrel produced and often cheaper, this means in the transportation sector we must speed the renovation of the freight railroads and build urban mass transit as well as fuel-efficient autos. Because of the existent capital shortage, those investments should be considered within the context of the windfall profits debate.

The administration has now announced a new $16.5 billion transportation-energy package that can only be considered a beginning. Retooling the auto industry alone will require tens of billions that Detroit cannot raise on its own. The same magnitude of investment will be needed to modernize the freight railroad industry and renew the inland-waterway system. Economic policy analysis must carefully tabulate the cost of needed investments in transportation and other essential industries and relate them to potential available capital, both public and private. This is essential work, and one hopes Congress will seize the moment. The windfall profits tax, synthetic-fuel development, mass transit, auto-efficiency issues, and Chrysler's financial trouble provide a set of issues serious and broad enough to override any special interests in favor of truly national solutions.

What we are ultimately addressing is the reindustrialization of America, and a new industrial revolution won't happen by itself. I believe we can refurbish our factories and once again make the kind of quality products that will dominate world markets.

But it is easier to draw the plan that leads us there than to follow it. Painful public decisions and regional economic tradeoffs will have to be made and in the end, ony the Congress can make them. From this armchair, I wish by fomer colleagues God speed.

[From the Washington Post, Sept. 16, 1979]

CHRYSLER'S REALTY SALE MAY BE OVERLY TOUTED

(By Dan Dorfman)

If everything goes as planned, ailing Chrysler will soon be the happy recipient of a much needed slug of cash from the impending sale of its wholly owned Chrysler Realty Corp, to a privately held real estate investment company in Wichita, Kan.

Lawyers are currently thrashing out the final details of what's likely to be one of the biggest real estate deals in years. And the wrap-up—which is expected before the end of the month—should fatten Chrysler's coffers, so the press reports go by about $200 million. The Wall Street Journal, in fact, speculated that Chrysler could realize as much as $270 million on the transaction.

It sounds fine, except for a couple of things. Some Chrysler watchers insist the company is getting ripped off by selling its real estate assets too cheaply in what

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they regard as a questionable deal. And significantly, some insiders from Chrysler Realty think the same thing. And they're telling it to outsiders.

Moreover, Chrysler, I'm told, is not getting $270 million or even $200 million for its real estate business—but only about $125 million.

Sources tell me the actual purchase price is around $195 million, slightly above Chrysler Realty's book value. But the buyer, Abko Realty, Inc., will also receive $70 million in notes that the parent company owes its realty unit. And so, for about $125 million, Chrysler is giving an estimated $430 million in assets (excluding the $70 million in notes).

Granted, Chrysler Realty is saddled with a pretty substantial debt—roughly $395 million—but some real estate pros argue that the purchase price is still ridiculously cheap if you factor in the true understated worth of the realty unit's holdings.

Several savvy real estate people estimate that Chrysler Realty's holdings—primarily land and buildings of nearly 800 Chrysler dealerships and agencies—are worth at least 50 percent more than the $430 million figure and possibly a good deal more.

If that's so, why in the world is Chrysler parting with its properties so cheaply?

A justifiable argument can be made, of course, that Chrysler is in desperate need of cash and wants to pull off a deal quickly. But even allowing for that, the word from inside Chrysler Realty—which earned $12.7 million last year—is that a better deal could still have been made in a hurry had the properties been shipped around to more people. The allegation is that Chrysler made no serious effort to do this.

Several of the country's biggest real estate buyers—notably from the insurance field—told me they hadn't even been contacted by Chrysler (although they were aware of the availability of the realty unit). And a source from one interested company says that an inquiry to Chrysler drew such a cool response that "you had to wonder if they really wanted any other bidders."

I tried getting some answers from Ed Homer, the president of Chrysler Realty. I wanted to ask him, among other things, whether Chrysler had made a torough, detailed appraisal of its properties to ensure a fair price. I had heard rumors that it had made only a cursory check.

Alas, my effort was fruitless. I couldn't get a clear answer from Chrysler on the appraisal question—although a spokesman thought that Abko had probably made such an analysis if the auto maker hadn't. Further, a conversation with Homer is out of the question, Chrysler told me, since the real estate negotiations are still going on.

Homer, by the way, will reportedly be joining Abko when it takes over Chrysler Realty.

Having struck out at Chrysler, I tried Abko, a firm that has been newly formed to buy the realty unit. It's owned on a 50–50 basis by George Ablah, a smooth, fast talking Wichita land investor who's been in the real estate business for 30 years, and Koch Industries, a privately held real estate and manufacturing company that's also based in Wichita. Koch is controlled by Charles Koch, one of the richest men in America with an estimated net worth in excess of $500 million.

Ablah, who has bought land from Chrysler in the past and put the deal together, insists that "no one is getting ripped off, that it's a fair price to both buyer and seller . . ."

Adds Ablah: "We're getting it because the biggies wouldn't consider it. They weren't brave enough; they don't want to do any deals where they have to repossess 800 showrooms."

(In response, a top official of one of the world's biggest buyers of real estate—who hadn't been contacted—says "properties are so hard to come by . . . so scarce, that you don't laugh off anybody, including Chrysler. And that deal strikes me as a giveaway.")

Considering the serious and lingering problems of Chrysler, I wondered what made Ablah and Koch so fearless. "We don't think Chrysler will go broke and that's what we're betting on," Ablah says.

But what if you're wrong? I asked.

"Then we'll still come out okay over the long pull," he responds confidently. "We think real state values will continue to rise. And thats why we think the business is worth more than we paid for it."

In effect, Ablah is ackowledging the very thing that's bothering the critics of the deal—namely, that the Chrysler holdings are under-valued relative to their potential.

That being the case, I asked Ablah, how were you able to entice Chrysler to unload at book value?

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"Because we're doers, not talkers," says Ablah, who was obviously annoyed at the question. "We're putting up all cash, no notes . . . and besides, we're saving Chrysler's ass."

That comment about cash struck me as noteworthy especially when Ablah told me he personally was putting up half the money to do the deal. That seemed surprising in light of a check one auto industry executive had done on Ablah several years ago when he was involved in a potential deal for the car company.

"We found Ablah to be a hustler, a guy with a negligible net worth," the auto executive says.

Ablah, however, insists his net worth is substantial—that he has strong financial backing. Maybe so, but he refused to let me talk to any of the financial institutions that were anteing up his 50 percent.

Now I have to admit that I know beans about real estate. Like you, I've heard about homes and office building space skyrocketing in price.

I've also heard from one real estate man after another that many corporate balance sheets list land and buildings at "book value" far below what they would bring if they were sold in today's inflated market. And Chrysler, by Ablah's own admission, has many prime properties.

Now I didn't find any smoking guns in looking into the situation, nor am I suggesting they exist. But when you consider the unanswered questions about what's regarded as a "giveaway deal"—a controversial transaction that baffles even the pros—it's no easy matter to blithely ignore a nationally known auto executive when he tells me with strong conviction: "The whole situation stinks."

[From the Washington Post, Sept. 18, 1979]

Detroit Shifts Down

(By Joseph Kraft)

"They insist on producing gas-guzzlers," President Carter said last week when asked what ailed Chrysler. But that view, while widespread, is almost certainly dead wrong. It understates the Chrysler problem.

For what is going on here in Detroit is a rapid change of gears for the whole industry. The switch has strained all the auto companies, and it is having on Chrysler—because of bad management and weak finances—an absolutely devastating impact.

The starting point for change was the Arab oil embargo of October 1973. Prior to that, the major American auto producers had made only intermittent and halfhearted efforts to wrest the market for small cars from foreign makers. Afterwards—on Dec. 23, 1973, to be precise—General Motors decided to go for broke in the production of fuel-efficient cars.

In rapid succession GM brought out a down-sized Chevrolet, the Chevette; a down-sized Cadillac, the Seville; and—this year—a front-wheel drive car (known as the X model) for its Buick, Olds, Pontiac and Chevrolet divisions.

The radical shift cost billions for new equipment, and in the early years GM weathered troubles galore. It had to close a score of plants, lay off thousands of workers, cut its dividend, borrow $600 million and see its share of the market for domestically produced cars decline sharply.

Now, however, the corner has been turned, and GM is flush. Last year it earned more money than any industrial company in history. Last week it concluded an exceptionally generous three-year contract with the auto workers.

More important, GM has transformed itself as a company. It is more highly integrated than before, and has more control at the center. Instead of being an American company with foreign divisions, it has become an international company selling to a world market.

With Volkswagen, Toyota and Fiat as the big competition, GM no longer feels constrained to limit its share of American production to 51 or 52 percent. It is around 60 now, and can go higher—which spells big trouble for the American competitors.

Ford, by deliberate decision, did not go all-out for smaller cars in 1973. During 1974 and 1975, as buying big cars came back, Ford did relatively well. The more so as it had strong foreign earnings from long-standing operations abroad.

But Ford now faces huge expenditures to catch up with GM in down-sizing its cars. Its sales in this country dropped sharply as a result of the gasoline shortage last spring. Apart from foreign earnings, the company is not making money. With

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[illegible] Henry Ford II stepping down this year and a new management team coming in, the future is cloudy.

As to Chrysler, it was out front in small cars in 1974, and has tried to keep the lead ever since. A far greater percentage of its production is in small, fuel-efficient cars than is the case with GM and Ford. "I sure hope," Chairman Lee Iacocca said in a press conference here in Detroit last week, "that the myth that Chrysler is in the gas-guzzling monster business has been buried."

But making money on small cars is very hard. Moreover, in moving toward smaller cars, Chrysler has been working from a weak base. During the 1960s, the management took flyers in real estate and car-leasing. Chrysler started foreign production belatedly and at very high cost.

Worse still, it adopted in the 1960s a policy of producing cars for a company year rather than to dealers' orders. When buying point of sources after the oil embargo and after the shortages this spring, Chrysler was stuck with massive inventories. According to Iacocca, that policy this year alone cost the company as much as $700 million cash and up.

Meeting the Chrysler problem, accordingly, is not, as President Carter seems to think, just a matter of down-sizing cars. Nor, as Secretary of the Treasury G. William Miller seems to think, does it mean a government loan of more than the $1 billion Chrysler originally sought.

The problem is to think through Chrysler's future role in a rapidly changing auto industry and then make available what the country needs. That may imply giving Federal aid—which would be far closer to $1 billion than $1 million. But it also may mean organizing a bankruptcy in ways that would change management the better to save what is truly vital—engineering skills, productive capacity and jobs.

From the Washington Post, Nov. [illegible], 1979

The Benefits of Bureaucratic Sin

By Colman McCarthy

South Bend, Ind.—As a blooded conservative Republican whose political upbringing stressed the great moral teaching—Thou Shall Not Get In Bed With the Government—Richard Boulis once had a mild dalliance with bureaucratic sin.

It was late in 1974. South Bend Lathe—a producer of machine tools that had been in this northern Indiana town since 1906—was about to fold. The parent company, Amsted Industries of Chicago, announced plans to unload the firm for its lack of "profit performance."

With 500 workers threatened with layoffs, Boulis, as president of South Bend Lathe, began a rescue operation in partnership with the federal Economic Development Administration in the Commerce Department. With a $5 million loan from the EDA, channeled through the city of South Bend, plus a $4.5 million commerical loan, Boulis and the factory workers bought the company for themselves.

South Bend Lathe became part of the Employe Stock Ownership Plan. Since 1973, Congress has passed a number of bills offering tax breaks to encourage companies to adopt the ESOP approach.

The idea of people working for not only a salary, but also a share of the profits, has led to a remarkable burst of capitalist benefits at South Bend Lathe. Earlier this year, Boulis told the House Committee on Small Business some of the details:

The $4.5 million bank loan was paid off within 22 months;

In the first year, earnings per share were $20, they rose to $42 the second year and $69 the third;

Eight bonuses have been distributed;

In 1977 and 1978 sales were the highest in the company's 70-year history;

Last Christmas, each employe received a check equal to a week and a half of pay;

Stock holdings of the average employe is about $9,000, up $2,500 from a year ago.

Boulis doesn't pretend that he and his co-owners punch the clock every morning for an eight-hour picnic. "We're a factory, not a country club," he says. In addition, a suit about the previous pension plan that was replaced by ESOP is still being pressed by the steelworkers union.

But little argument exists that the cherished trinity of American commerce—profits, productivity and morale—is high at South Bend Lathe.

This success story in a town that still feels the pain caused by the 1964 collapse of the Studebaker Corporation that once employed 22,000 is due in part to Sen. Russell Long of Louisiana. In the past decade, he has been quietly backing employe owner-

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ship plans, no doubt thinking that his father, Huey Long the Kingfish, would be enchanted by this blend of populist-capitalist theory.

Long is currently insisting that any federal relief to Chrysler—which last week recorded the worst losses in U.S. corporate history—be tied to an employe ownership plan. It's a sound idea, but it's an open question as to how many workers in their right minds will want to be linked with Chrysler's management. As Dick Boulis points out, "Stock ownership isn't a panacea. You still need good company officers, who know what they're doing." Without that, it is merely a federal bail-out for one Chrysler or another whose managers are free-enterprise flops.

It is certain that Russell Long—who was nudged into the stock ownership field by Louis Kelso, the San Francisco economist—is not a supporter of ESOP merely on whim. He is moved by facts.

After the Senate Finance Committee surveyed companies with stock ownership plans, Long reported last month on 75 firms: In three years, as against a 24-year period before the plan the companies achieved "a 72 percent increase in sales, employed 37 percent more employes, increased pretax profits by 157 percent and paid 150 percent more in federal income taxes." It works, declared Long, a man who knows as well as anyone in Congress the difference between fiscal success and sham.

For his efforts back in Indiana, Dick Boulis has heard his operation labeled socialism and communism. Actually, it's basic free enterprise economics: Borrowing a few dollars one day, paying them back the next, and filling in the books ever after with black ink, not red.

It's a delight, too, as Boulis says, to know that Notre Dame isn't the only winning team in town.

[From the Washington Star, Aug. 20, 1979]

The Chrysler Storm: Same Wind But Different Effects

(By Michael Novak)

My statist colleagues believe it is right to tax away "windfall profits" from the oil companies, but wrong to make tax loans to cushion "windfall losses" at Chrysler.

Herbert Stein, former White House economist, seems to be the first (and so far the only) writer to note the same wind has produced both effects.

If gasoline were still selling at 36 cents or even 65 cents a gallon, car buyers still would be preferring Furys and Aspens to the European-type compacts.

Stein does not believe the federal government should come to Chrysler's assistance. Neither does Thomas Aquinas Murphy, the chief executive officer of General Motors. Neither do the editors of *The Wall Street Journal.*

On Mondays, Wednesdays and Fridays, I agree with these careful thinkers about our economic system.

On Tuesdays, Thursdays, and Saturdays, I think of the workers in Hamtramck, Mich., who may lose their jobs.

On Sundays, I pray for light.

It gives the statists much pleasure to talk satirically about "welfare" for Chrysler, and to suggest—as the United Auto Workers' Douglas Fraser did—the nationalization of Chrysler.

Observing the practical results of such nationalization in Great Britian, France and Sweden, however, not to mention our own railroads, post office, and welfare system, I find such enthusiasm old-fashioned.

It would be far better for the future of democratic capitalism to permit Chrysler to solve its own problems, to find new investors with faith in its future profit-making potential, to find a buyer (foreign or domestic) or else go out of business.

To increase the activity of the state in the sphere of economic liberty is a foolish mistake, for which we would pay with both our liberties and our prosperity.

Government regulators, who are insisting on an airbag inside automobiles, are mischievously consistent when they propose, in effect, to cushion the whole Chrysler Corporation with a kind of air bag.

Chrysler's fall would take down with it many good dealerships in countless neighborhoods around the land, and many large populations (significantly black) of highly paid skilled laborers. Many families would have to sell their homes and lower their life expectations. The human cost would be great.

Moreover, given our present level of welfare obligations, the fall of Chrysler would also be extremely expensive.

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The government, federal and state, would lose considerable tax revenue from employee wages and would pay mushrooming unemployment benefits.

Chrysler is not asking for an outright gift. It is asking for tax credits in the form of loans, to be repaid from taxes due on future profits. There's the rub.

If private investors have little faith in the firm's future profitability, taxpayers should be sufficiently warned that the risks are very high.

It would be a marvelous irony, of course, if a cash-rich oil company were permitted to purchase Chrysler. But the sudden upsurge of the price of gasoline does have a great deal to do with the cash flow upwards of the oil companies and downwards of the auto companies.

Those who invested in oil companies over the years were smart. Those who invested in Chrysler were not quite so smart. It seems to me equally wrong for the state to confiscate the rewards of the former to save the latter.

The principle of the thing is important in both cases.

Investors and employees do have a stake in the survival of their own companies. Let us hope the pension plans of the auto workers are invested in oil rather than in Chrysler.

[From the Washington Star, Nov. 13, 1979]

The Chrysler Precedent

(By James J. Kilpatrick)

There are times, perhaps, when a good case can be made for yielding economic principle to overriding reality, but such a case has not yet been made in the matter of the pending loan guarantee for the Chrysler Corp. Unless convincing evidence in support of the bill can be presented at this week's Senate hearings, the plan should be rejected.

We ought to be clear on what is at stake. It is not the $1.5 billion guarantee as such; there is no prospect that anything approaching this sum might actually be lost to the taxpayers, if all goes well, the Lockheed experience of several years ago could be repeated, and the Treasury would even turn a small profit.

No. Something far more precious is involved. The Carter administration's bill would undermine economic principles of the highest priority, and it would set a precedent that could plague the Congress for years to come.

We identify our industrial economy in terms of "the maketplace," or "venture capitalism" or the "free enterprise system." At bottom, ours is known for short as the "profit system." But as Professor Milton Friedman recently has remarked, that shorthand term is too short. Ours is not a profit system; it is system of profit and loss.

Everything depends upon recognition of that fundamental concept. Capital is invested under the hope of gain, but it also is invested at the risk of loss. Take the element of risk away, and what remains. Nothing but a pallid imitation of free enterprise.

This is what is here proposed. The Treasury would guarantee the repayment by Chrysler of up to $1.5 billion in loans. To be sure, the ailing company would have to raise $1.5 billion in non-guaranteed loans or in "concessions" from its unions, but Chrysler has sufficient assets to overcome this requirement.

The administration's bill effectively would put the United States government in the automobile manufacturing business. The Secretary of the Treasury would have to pass on "satisfactory" operating plans and "satisfactory" financing plans. The secretary would have to approve four-year programs of various kinds. And if the secretary should determine that Chrysler's problems in obtaining non-guaranteed credit are "the result of a failure on the part of management to exercise reasonable business prudence," the secretary shall require "such management changes as the secretary deems necessary."

What is the case in support of this extraordinary proposal? The administration says that if Chrysler went bankrupt, the collapse would have a "devastating impact" upon the company's 117,000 employees, its 4,700 dealers and its 19,000 suppliers. The Senate Banking Committee will want to receive overwhelming proof of this doomsday conjecture.

One has to sympathize, of course, with the prospective plight of the workers, but their pathetic scenario demands careful scrutiny. A reorganization under Chapter 10 of the Bankruptcy Act by no means requires the instantaneous shutdown of every Chrysler facility everywhere. Chrysler has about 9.3 per cent of the automotive market, the company should market a million vehicles this year. The de-

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mand for this production will not evaporate if the company goes under. The demand will still be there, and its fulfillment will require, as before, workers, dealers and suppliers.

Treasury Secretary G. William Miller says that Chrysler's losses, amounting to $721 million through September, present "a unique situation." Yes and no. The situation is unique in that no other major U.S. corporation (Chrysler ranks 10th among manufacturers) is now in such miserable straits. But if principle is to be sacrificed in order to save No. 10 today, what of No. 12 tomorrow? Or No. 20? Ultimately such bail-out legislation must become a matter of pure politics—and principle be damned.

If Chrysler goes the way of Hupmobile, Hudson and Nash, competition in the auto industry would be reduced. It is not a happy prospect. Bit if we believe in the incentive system, we must believe that the marketplace eventually will cure the evil—that new investors will appear with greater faith in the system of profit and loss than the pending bill displays.

OPENING STATEMENT OF SENATOR CRANSTON

Senator CRANSTON. I will say very little at this point. I think I can speak with greater wisdom after listening to the many witnesses, including the distinguished panel at the desk before us, and sifting the testimony.

I have grave concerns about aiding Chrysler. But I also have grave concerns about not aiding Chrysler. Basically, I think we must be assured to the maximum degree possible that if loan guarantees of some sort are made by the Government, that we have good reason to believe that Chrysler will be able to survive, to prosper, to manufacture and market automobiles that the American public will purchase.

I want to learn a lot more about that before I make judgments.

I yield the balance of my time to Senator Riegle.

The CHAIRMAN. Senator Riegle, do you want to speak now out of order, or shall we go back?

Senator RIEGLE. Why don't I wait until my turn.

The CHAIRMAN. Senator Heinz?

OPENING STATEMENT OF SENATOR HEINZ

Senator HEINZ. Thank you, Mr. Chairman.

First of all, I want to commend you, Mr. Chairman, and you, Senator Garn, for the responsible and expeditious manner in which you have handled the Chrysler situation thus far. Even though both of you have serious doubts, which I certainly share, concerning the wisdom of the proposed Federal aid package for Chrysler, I think you have both approached this matter in a very judicious and careful and thoughtful and restrained way.

I intend to follow that example and that approach in my consideration of this situation. With respect to the matter at hand, the question of Federal loan guarantees for the Chrysler Corp., I would like to take just a moment to outline my general views and thinking at what is admittedly an early point in our proceedings.

To put it succinctly, I have profound reservations about the merits of the proposed aid package or of any bailout whatsoever. I have serious questions on both practical and philosophical grounds concerning the wisdom of this type of Federal assistance presented to us here.

Mr. Chairman, I am a strong believer in the American enterprise system. I am a strong believer in it because it is the bulwark of American freedom, of individual liberty, and because it provides

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the framework, the best found to date, for the incentives for a prosperous economy, and therefore provides the resources to assure a decent standard of living for as many Americans as possible by helping to insure that resources are used in an efficient and practical manner.

It is because I believe quite strongly in the American enterprise system and in our traditions that go way back on it that I am so concerned about the philosophical implications of the proposed assistance to Chrysler. Our system is one of both profit and loss. Many, many businesses succeed each year. Many, many other businesses do not.

While this is indeed painful for those who do not succeed, it is an essential feature of the American enterprise system and assures that over the long run resources will be allocated in the most efficient and productive manner, and that our standard of living for all Americans, as a result, will be commensurately higher.

Mr. Chairman, I believe that the proposed Federal assistance plan to Chrysler is qualitatively different. It is a different approach than any that has yet been taken by the Federal Government with respect to American business. It is my grave concern that the establishment of a precedent for bailing out a single U.S. business could well come back to haunt us.

It runs counter to every instinct and every philosophical tenet that I possess. Like it or not, we have the responsibility of dealing with the Chrysler bailout. Part of that responsibility is to try and be just as objective, responsible as possible, and to do what is in the ultimate best interests of this country. I shall, for my part, try and do that.

As Senator Garn just indicated, there are numerous questions about Chrysler in the proposed package. In this regard, I want to again commend the chairman and Senator Garn for their very thorough effort that they made in their recent request for information from both the Treasury Department and Chrysler to justify their request and assertions.

There are at least 50 questions that have been asked, and I am sure that we will all expect thorough and responsive answers to those questions.

Finally, I would like to place my concerns into a conceptual framework. I think there are three principles that we should continually ask ourselves and all of the witnesses.

The first is, where are we going to get professional independent advice as to whatever it is the administration proposes today or will propose tomorrow, is adequate or appropriate to the task at hand? Is $3 billion too much or too little at a practical matter? And who do we believe?

Second, what is the test that we are going to use to evaluate any proposal? Is it going to be our self-considered wisdom? I hope not. I trust that the test will be the willingness of private investors—banks, financial institutions, equity investors—to put more money in on top of whatever it is, loan guarantees or some other approach that the committee in its judgment may decide on.

And third, I trust that whatever it is the Federal Government does, should it put any of the resources of the Federal Government

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at risk, that the Federal Government will have a preferred and secure position.

I will raise one last particular question. At breakfast with the President this morning, he indicated his interest and concern in the Chrysler aid package and said that it demanded that there be participation in solving the problem of Chrysler from three quarters: from the management, from the employees, the people who work there, and from the creditors.

I think that is totally inadequate participation, because it leaves out the group with the most to benefit—the people who own the 66 million-odd shares of Chrysler stock, who, if we do pass some giant bailout bill for Chrysler, will receive the biggest windfall of all times. I think it is totally unacceptable for the administration to send this committee a bailout proposal that simply enriches two, three, perhaps five times over, the owners of considerable Chrysler stock.

The concept of not having the owners of the corporation have something at risk, give up something, while employees and creditors and bankers and management give up presumably something, if not a lot, just doesn't make any sense. And I would hope every single member of the United States Senate would stand firm and insist that if there is going to be some kind of Federal financial assistance, that at a minimum the shareholders have got to do their part, even if it means a requirement, as a condition of any aid, having a very substantial offering. Given the general feeling that the board of directors of the Chrysler Corp. have not been particularly prudent, the idea of having another 66 million shares in different hands has a certain amount of appeal to those who would like to see management and board changes from top to bottom.

So, Mr. Chairman, these are some of the things that I myself will be looking at in these hearings, and I appreciate the opportunity of my colleagues to allow me to put these on the record at this time.

The CHAIRMAN. Senator Morgan?

OPENING STATEMENT OF SENATOR MORGAN

Senator MORGAN. Mr. Chairman, in addition to the many questions that you and others have raised, I will be looking for answers to two other questions which I hope someone will address during the hearings. What would be the effect on competition in the automobile industry if Chrysler falls by the wayside? It may be that their employees may be used or picked up by other automobile manufacturers, but will the competitive forces in the automobile market be substantially reduced?

And second, is this really the first bailout? Are we going to start a precedent in bailing out industry. I have done a little checking, Mr. Chairman, about some past loans. I requested a printout of Farmers Home Administration loans that were made in my own State. They have engaged in some of the darndest bailouts I have ever seen of industries of modest size, and of businesses. So has the Small Business Administration. This is not to say that I am for this. I am philosophically opposed to it, but it may be that this may be a turning point. We may want to decide whether we are going further into it, or, whether we are going to get out of some of the

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practices that have been engaged in by other agencies of Government.

So these are two basic questions which concern me, and Mr. Chairman, inasmuch as the Senator from Michigan has done a lot of work on this, I would yield him the balance of my time.

The CHAIRMAN. Senator Riegle.

OPENING STATEMENT OF SENATOR REIGLE

Senator RIEGLE. Thank you, Mr. Chairman, and let me say first to Senator Cranston and Senator Morgan, that I appreciate their kindness and thoughtfulness in yielding to me the balance of their time.

I might say at the outset that my staff and I have had the opportunity over a period of several months to study this situation exhaustively. It is complicated. Today, the initial remarks I want to make will try to put forward in summary form, as briefly as I can, the essential results of that work.

Let me also say at the outset that I appreciate and I understand the dilemma that my other colleagues have expressed today in trying to evaluate and judge a situation as difficult as this one.

Mr. Chairman and colleagues, I think the condition of the Chrysler Corp. is a danger signal to our country and that, in fact, we have a great deal to lose beyond Chrysler if we fail to grasp the significance of the situation and fail to respond strongly. In industry after industry, the United States today is encountering increasingly tough and sophisticated competition from foreign firms. This is no accident. Many of those firms are part of a modern industrial base that was built after World War II, unlike ours, and they have benefited greatly from supportive policies of their governments. Japan, West Germany, France and almost every other industrial nation have mechanisms for charting the development and if necessary the redevelopment of major sectors of their economy. Government, industry and labor in those countries have cooperated to influence how major industries affect the national interest. The flow of capital, tax policy, import and export policy, government regulation and other public action are often coordinated in a coherent strategy to modernize major industries, increase their international competiveness, and stabilize employment.

But what of the United States? Unfortunately—and with a few notable exceptions such as agriculture—the United States has not thought to develop national policies and strategies for its major industries. Instead, Government, labor and industry are often adversaries. We have moved into a full-blown world market situation and yet our national economic mentality is still largely geared to insular notions and strategies that really do not properly fit today's new circumstances.

Government policies often give conflicting signals to business, and no one is in a position to influence the total effect of Government on such things as innovation, capital investment, productivity, corporate finance or the competitive position of U.S. industry in world markets.

I don't think we can delay much longer in facing up to these tough new realities. In the coming months our Nation, whether we like it or not, must adjust to profound changes in international

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trade relationships and convert our industrial base rapidly from an era of cheap and abundant fuel to an era of scarce and very expensive fuel. This is the very complex and new and difficult context in which we have to try to come to grips with the problems of Chrysler and to try to make some sense out of them.

Now, let us consider the case of the automobile industry in this larger context. By any measure the auto industry is a primary part of our economy. It accounts for 1 out of 12 manufacturing jobs in the United States, 20 percent of all retail sales, and generates demand for many basic industries, some of which I will mention shortly. Every domestic manufacturer in the automobile industry has been whipsawed by conflicting public policy actions.

Unlike Japan and European countries, the United States kept the price of gasoline artificially low, thus building demand for large cars for which there was no export market. Auto fuel conservation was then belatedly forced by Government regulations. Simultaneously, auto engineers were hit with conflicting and often uncoordinated demands by Government for additional expensive safety and emission standards. These Government policies have been forcing domestic auto makers to replace a major part of their productive capacity at an estimated total cost of $80 billion for the 6-year period from 1979 to 1984. That figure is almost impossible for us to comprehend; to raise and commit $80 billion of capital within that 6-year period.

Two years ago financial analysts predicted that this would greatly strain the financial capacity of all of the domestic auto makers and endanger all of them, with the possible exception of General Motors. That very difficult problem that has been coming at us, and which we could see coming, was greatly exacerbrated when we had an additional difficult period of adjustment due to the fall of the Shah of Iran. This triggered long gas lines, torpedoed car sales, and created large losses in the North American operations of the Big Three auto makers.

And it is very much in the news today that this is a problem that goes far beyond Chrysler. For the past 2 years now, Chrysler has been undergoing a massive revitalization program to cut its costs, revamp its product line, and rationalize its operations. They have changed their management during that period. Chrysler is investing $1.1 billion to convert its plants to the production of fuel efficient cars. Within the next year, these plants will greatly increase the U.S. capacity to produce small cars with four-cylinder engines and front wheel drive. This will help us compete far more aggressively against foreign imports. Because much of this new capacity in Chrysler is being installed in existing plants, massive regional dislocation is being avoided, but now those benefits are in jeopardy.

The danger of a catastrophic collapse of Chrysler is real, and the damage of that collapse would be felt in many sectors of the economy, throughout the country, and for a long time to come. The collapse of a corporation like Chrysler is simply unprecedented in our Nation's history.

This is America's 10th largest manufacturing firm, with sales of $13.6 billion in 1978. It employs 140,000 people. It purchases goods and services from 20,000 suppliers, thus supporting an additional

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180,000 jobs. It sells cars and trucks through 4,800 dealerships which employ another 100,000 people. So, in fact, about 600,000 jobs, and some in every State, depend directly upon the operation of Chrysler. Chrysler in turn depends daily on an incredibly complex network of commitments from employees, banks, suppliers and dealers. The company uses some $40 million in cash every day.

If Chrysler were to declare bankruptcy, a devastating shock would be sent throughout the entire network across our Nation. Most of the suppliers would need cash on delivery or even in advance of production. Dealers could not survive an interruption in payments for warranty work completed. Almost every informed observer agrees that within weeks, and in fact, more likely, days of filing for bankruptcy, almost the entire operation would come to a shattering halt, and recovery in any form would hardly be possible as hundreds of bitterly fought lawsuits test the new bankruptcy laws.

In fact, Chrysler assets would be tied up in the courts for years, according to the judgment of expert witnesses who have already appeared before this committee. So where would the damage stop? With the economy in its present weakened condition, who would remain unaffected? No one, and absolutely no one could say when and where the damage would end.

We do know that America's ability to produce fuel efficient cars would suffer, and we are already way behind in that area. With the capacity of GM and Ford to produce small cars already strained, foreign car manufacturers would be relieved of the need to compete against an expanded supply of Omnis and Horizons in the new line of small cars that Chrysler is planning to introduce as early as next summer. In fact, our current $7 billion trade deficit in motor vehicles would worsen.

This is the second biggest deficit item, after oil, in our balance of payments.

We also know that about 600,000 workers would, at least temporarily, be out of jobs. Most would suffer a permanent reduction in income. Most would have a very hard time becoming reemployed, both because of the concentration of the Chrysler work force and the weakening national job market.

Since Chrysler has for years been a leader in affirmative action and has committed itself to inner city plants, it by itself generates 1 percent of the total income of the Nation's black population. So the blow would tend to fall heaviest on those who can bear it least. Also most of the 20,000 suppliers would also suffer because GM, Ford, and foreign auto firms buy a much smaller proportion of their parts from U.S. suppliers.

Most suppliers would take years to recover the lost sales, and frankly, most would not survive to do that. Many would be driven into bankruptcy and those who complain about the past weakness of Chrysler management should consider that many of the firms that would be hurt, the small firms that would be hurt by a Chrysler collapse, are well-managed, technologically advanced, highly competitive and vigorous contributors to our economy.

We know that Government deficits would grow by billions of dollars. Estimates range from a minimum of $2 billion to well over $10 billion. Tax revenues would fall. Spending would rise on unem-

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ployment insurance, welfare, food stamps, defaulted federally insured home mortgages, and other assistance programs.

We simply do not know, however, the extent of the ultimate damage that would be done to the U.S. economy. We do know that it would be massive, measured in the loss of billions of dollars and damaging the lives of hundreds of thousands of people.

So Chrysler would not be just another bankruptcy, I say with all due respect to my colleagues who have spoken earlier, any more than a nuclear explosion would be just another bomb going off, and no intelligent and responsible Government should permit the unleashing of such a devastating, uncontrollable, and far-reaching chain of events.

Limited, carefully controlled financial assistance from the Federal Government can be provided in a way that helps continue this task of revitalizing Chrysler and yet fully protecting the taxpayers' interest. All other parties with a stake in Chrysler's future should and would be required to do their fair share by matching the Federal loan guarantees dollar for dollar. It would be a just and prudent step toward new policies that can begin to strengthen and rebuild the U.S. position in today's world market.

Now, legislation before this committee, and cosponsored by myself and 11 of my Senate colleagues would take that step. It should be enacted without delay for the reasons I have cited. The Carter administration, to its great credit, has determined, after the most careful consideration and with the help of top outside financial experts, that Chrysler's survival is profoundly in the national interest. As Treasury Secretary Miller will relate this afternoon, the strategic interests of the United States would be badly damaged if Chrysler were forced into bankruptcy.

The plan the administration has developed to prevent that economic catastrophe is both sound and workable. Moreover, it provides tough conditions and the full protection of the taxpayers' interest in any Federal loan guarantees that would be granted.

Finally, let me say to other comments that have been made here—to those who charge that the idea of Federal loan guarantees for Chrysler would establish a dangerous precedent and do violence to the concept of free enterprise here in America. Both charges are false, and I think are patent nonsense.

The U.S. Government presently has outstanding over $240 billion of loan guarantees, mentioned by Senator Morgan and others, which range from shipbuilding to foreign governments to U.S. agriculture. And I would say to my friend from Pennsylvania, when he fought within the last year-and-a-half for Federal loan guarantees for steel companies in his State, of exactly the same form and for the same purposes, that I heard none of the philosophy expressed about that doing violence to the free enterprise system.

Senator HEINZ. Will the Senator yield? The Senator has mentioned my name and I would like to respond. The Senator heard——

Senator RIEGLE. I will not yield at this point.

Senator HEINZ. I'm sorry. I insist on my rights. The Senator——

The CHAIRMAN. The Senator from Michigan has the floor. If he doesn't care to yield——

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Senator RIEGLE. I don't yield at this point. I will be happy to yield when I finish.

Senator HEINZ. I think the Senator has misstated the case.

Senator RIEGLE. I will yield when I finish, and you are free to respond.

The CHAIRMAN. Continue.

Senator RIEGLE. We have a number of precedents. We have the Lockheed case, but in the industrial sector we have the EDA laws to the steel companies, Jones & Laughlin and others, as the Senator will note; $550 million that we made available on a Federal basis within the last year-and-a-half, with the support—unless I am mistaken—of the Senator, and I might say, with my support because of the need to revitalize and modernize that industry, and to fight off foreign competition.

I heard none of these reservations expressed at that time. Now suddenly, they are, and I frankly am at a loss to know what the difference is, and I will be very interested to hear what the difference is.

The point is that we have a number of precedents, and steel only happens to be the most recent one. I might say we also have precedents even within the automobile industry, as ought to be well known to anybody who is paying attention to this case. Chrysler is not the first auto company to come knocking on the door of the Government. American Motors was here first, asked for help, desperately needed it and it was given—and with the support, I might say, of a goodly number of the members of this committee, including this member.

And I am prepared to do it again in order to avoid the greater loss that I think would occur to our country were we to fail to respond. So this breaks no new ground in terms of loan guarantees, and there ought to be no mistake about it. We have acted and intervened in a number of ways in the EDA laws to modernize the U.S. steel companies. That is just one of the most recent examples.

So these kinds of initiatives are fully a part of today's free enterprise system and are in no way alien to it. I think what we must finally reach here is a single bottom-line judgment in this case, and that is, what is best for America? Does the Chrysler bankruptcy best serve America, or are we better served by enabling Chrysler to accomplish a transition that will keep it a strong and vibrant part of our national economy? That is the basic question.

And when all of the evidence is considered, and the sloganeering and the philosophic posturing is put aside, I think that we will see conclusively that the facts show that America's interests are directly and wisely served by modernizing and preserving Chrysler. And now I yield to my colleague from Pennsylvania, and my friend.

Senator HEINZ. Senator, when you characterize people as being for or against loan guarantees to anybody, I would appreciate it if you would be accurate in who you throw into those categories. In my statement, which I pronounced and worded very carefully, I said nothing that had to do with being for or against loan guarantees one way or the other to any class or classes.

What I am against is an individual bailout. I would remind the Senator that his record is interesting in that regard. The Senator

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from Michigan, when he was a member of the House, when he was a Republican, in fact, voted against Lockheed, voted against the Lockheed loan guarantee, so I think that any criticism implied or expressed as to how anybody feels about a specific loan guarantee or any other bailout proposal regarding a specific corporation comes a little surprisingly from the Member from Michigan.

So I would appreciate it if the Senator from Michigan would believe me when I say that I intend to be as objective as possible, and listen carefully, because I didn't say any of the things that he thinks I said. Thank you.

Senator RIEGLE. I would simply say in conclusion to my friend from Pennsylvania that it should be included in the record at this point, as far as whether or not individual firms have been helped by Government loan guarantees, that Jones & Laughlin of Pittsburgh has received a Federal loan guarantee from EDA of $111 million. I don't know if the Senator objects or doesn't object to that.

The Wheeling-Pittsburgh Corp. has received a loan guarantee of $100 million, supplemented by an additional $50 million from the Farmers Home Administration. I could go on down the list. I am simply making the point that we have taken this step before and one may see a difference in one case and not in the other. I frankly don't see much of a difference in these instances, and especially when the auto industry happens to be downstream and is the principal user of the steel that is to be produced by the companies that we are helping stay in business through Government loan guarantees in the steel industry.

I would say with respect to the Lockheed situation, the Senator is correct in noting that I did not vote for that at the time, and I have learned some things since then. I have learned, for example, that that loan guarantee worked out very nicely for the Federal Government. We never had to invest a dime in that project. We made a $30 million profit on that activity and Lockheed has come through its difficulties. It is back on a strong footing. It is profitable.

The same thing has happened in the American Motors case. The Government assistance made available in six different forms at six different times has worked, and that company is now again profitable and is a contributor to the economic health of the country.

So I have seen in those instances that that strategy has worked, and I am frank to say that that is knowledge that I now possess that is different than what I had anticipated at the time. But I think the value of that experience ought not to be lost on any of us; that is, I think we have working precedents and some in the Senator's own State that I think show the wisdom of loan guarantees of a proper sort, if constructed carefully—and that is what is anticipated here.

Senator HEINZ. Just to get the loan guarantee situation straight, is the Senator saying that he knows of one single Member, or any Members of the Senate, who have voted for a Jones & Laughlin Steel Co.? Have we ever had such a vote in the Senate?

Senator RIEGLE. We have had——

Senator HEINZ. Yes or no?

Senator RIEGLE. The answer is "Yes."

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Senator HEINZ. On Jones & Laughlin there has been special legislation here?

Senator RIEGLE. For a class of steel companies in which Jones & Laughlin is included.

Senator HEINZ. That is not the same. And the Senator knows it. And the Senator is not proposing, I don't think, aid for the entire auto industry.

Senator RIEGLE. I think what the Senator is doing here, and I realize it is probably awkward for him, but I think he is making a distinction without a difference.

Loan guarantees, under whatever labeling or banner that one wants to apply, that affect the steel industry, I frankly don't see it being much different than those that would apply in the automobile industry. I make no differentiation between American Motors or Chrysler, any more than I do Jones & Laughlin or Wheeling-Pittsburgh Corp. of Pittsburgh.

Senator HEINZ. I know this is probably less than interesting to the expert panelists we have down here.

Senator WEICKER. Very interesting. Very interesting, Senator. [Laughter.]

Senator HEINZ. All except Senator Weicker, who I am sure we will hear from in a few minutes. But, is the Senator from Michigan in favor of loan guarantees today for General Motors?

Senator RIEGLE. No, I don't think they are necessary. I don't think they are required. I don't see——

Senator HEINZ. The Senator is opposed to standby loan guarantees for the auto industry?

Senator RIEGLE. No, I would say very clearly that I think any time that an emergency situation arises it has to be treated by itself. It has to be looked at in its own right. This is obviously a very novel and unique situation. It is unprecedented in its size and its scale.

Senator HEINZ. I think the Senator's words are making distinctions without differences, too.

Senator RIEGLE. The Senator is free to make that judgment.

The CHAIRMAN. Senator Tsongas.

Senator TSONGAS. I think it is fair to say that if any of us represented Pennsylvania we would have been supportive of Jones & Laughlin. If any of us represent Michigan, we will support Chrysler.

The CHAIRMAN. And the representative of Wisconsin should support American Motors?

Senator TSONGAS. That has occurred to me, yes. [Laughter.]

Mr. Chairman, I am undecided on this issue. I am leaning toward the chairman's position. I am here to learn and I have no statement to make.

The CHAIRMAN. Our first witness is the Honorable Carl Levin, U.S. Senator from the State of Michigan.

STATEMENT OF CARL LEVIN, U.S. SENATOR FROM THE STATE OF MICHIGAN

Senator LEVIN. I appreciate the willingness of this committee and hopefully the whole Senate to move expeditiously for the resolution of this issue. Prior to the submission of the administration's

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proposal, you were using the resources of this committee to conduct hearings on the impact of a Chrysler failure on the national economy. The fact that this second round of hearings has been called promptly is further evidence of your fairness as a chairman. I appreciate that and I applaud that.

The differences between opponents and proponents of this legislation tend to focus on three issues. I obviously can't cover them in the few minutes which are allotted to me this morning. I can try to highlight them. I know that this set of hearings will help the committee and the full Senate reach an informed conclusion about these issues.

First, are there viable alternatives to Federal loan guarantees? There are some who say that a reorganization under chapter 11 of the bankruptcy law is a better way to go. Secretary Miller says that the cost associated with that course of action will probably be greater than the cost of the administration's proposal, even if it fails.

I would hasten to add that he does not expect, I do not expect, and most experts do not expect, that the plan will fail. Additionally, as testimony before this committee indicated last month, reorganization is an uncharted course, likely to involve years of complex legal argument, and during those years a company which must live on consumer confidence in its future and its products will see that confidence die in a sea of legal doubt and dispute. This bill, then, rejects bankruptcy as a viable alternative, but it specifically allows for continued investigations of ways to restructure the company in order to minimize the level of government investment. In that sense, Mr. Chairman, this bill proposes a sensible middle course, worthy of our support.

IMPACT OF FAILURE ON NATIONAL ECONOMY

A second question, Mr. Chairman, is the impact of a Chrysler failure on the national economy. My own State of Michigan would be the hardest hit by a collapse, but every State and every sector of the economy would be hit as well. The cost to the Federal Treasury of a Chrysler collapse would be staggering: billions in lost revenues and billions more in increased expenditures for welfare and unemployment payment.

In a time of fiscal constraint we cannot afford to see Chrysler fail, if we hope to see a day in which we will balance the Federal budget. To those who would say that we cannot afford the risk, $1.5 billion in loan guarantees, I say that we cannot afford the billions that our failure to act are guaranteed to cost.

We can guarantee the loan or we can guarantee a larger Federal deficit. We can guarantee the loan or we can guarantee a greater disparity in our balance of trade and balance of payments. We can guarantee the loan or we can guarantee a deeper recession. This legislation saves us those costs since, as Secretary Miller said, Chrysler can recover as a result of this proposed financing plan.

Third, Mr. Chairman, there is disagreement about the propriety of Federal intervention into the operation of the free market. That is a theoretical question which we may increasingly need to address in the years ahead, but as we address it, it seems to me that

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we must do so with the goal of refining our answer to the question, rather than with the goal of finding our answer.

We have found the answer already, found it in billions of dollars of loans we now guarantee for farmers, steel companies, railroads, and individual citizens. We may need to develop more specific guidelines to tell us when and how to get involved, but involved we are and have been for a long time.

In conclusion, Mr. Chairman, while there are disagreements about these issues I hope that we will all agree on the need to allow the full Senate to work its will on this bill, this year. I look forward to discussing and debating these issues, and others, in much greater detail on the floor in the near future.

I want to thank the chairman and this committee for the expeditious manner in which it is handling this legislation.

The CHAIRMAN. Thank you, Senator Levin. Senator Weicker?

STATEMENT OF LOWELL P. WEICKER, JR., U.S. SENATOR FROM THE STATE OF CONNECTICUT

Senator WEICKER. Thank you. Let me say at the outset that I don't like to see my good friends fighting among themselves. However, these disputes do occur when there is an inconsistency in one's actions on the Senate floor. That is why I opposed the Lockheed loan and why I opposed Senator Heinz in the Wheeling-Pittsburgh loan. And just to be fair and evenhanded, Senator Riegle, that is why I am going to oppose the Chrysler loan.

I have a statement which I would submit and ask for its inclusion in its entirety for the record, Mr. Chairman.

The CHAIRMAN. Without objection, it will be printed in full.

Senator WEICKER. I am concerned with the possibility of loss of jobs. Yet, in the long run, more jobs will be lost if the Government hands out money to every Lockheed, Wheeling, or Chrysler that comes along. That would put those who are operating on their own at a disadvantage. Ford suffered nearly $900 million in operating losses on its North American operations last quarter. GM suffered an operating loss of $100 million. Both have cut production and laid off workers—thus the funds the Federal Government spends to save jobs for Chrysler would help to lay off workers at Ford and GM.

The Government was not there during the last two decades when business failures averaged almost $15,000 annually. I speak now as the ranking member of the Small Business Committee. I don't think any member of that committee expected Government to be there to bail out mismanaged companies. Government was doing the business of governing, not being the keeper for those making questionable business decisions.

FEDERAL BAILOUT UNFAIR

A Federal bailout would be unfair to the thousands of small businesses that fail each year without hope of ever receiving the type of assistance being sought by Chrysler. These small businesses are the job-creators of the economy, developing 6 million jobs between 1969 and 1976, while the 1,000 largest firms provided no employment increase. These firms also have accounted for half of

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the innovations in the U.S. economy in recent years, at half the cost of the largest competitors.

Yet they are not panhandling on the Capitol steps. I might point out that in fiscal year 1979 a total of $2.6 billion in loan guarantees were made to all the small businesses in America. That means that more than 13 million small businesses in this country, that account for 55 percent of all private employment, 48 percent of the business output, and 43 percent of our GNP, had to compete for $2.6 billion in loan guarantees. These guarantees were not 100 percent. By law they had to go for loans which were of such sound value or so secured as reasonably to assure repayment.

And here today we are talking about $1.5 billion, loan guarantee of one business. And we are told by Treasury Secretary Miller that this will not guarantee that Chrysler will succeed in the long run. It is an unfortunate commentary that the larger the business, the larger its wealth, the better able it is to make its voice heard in the halls of Government.

I find it especially ironic, Mr. Chairman, that we debate in the U.S. Senate legislation to curb the concentration of economic power in this country by legislative fiat when, indeed, we are not allowing the competitive forces in the market to do that job for us. There is not one of us in this room, Republican or Democrat, that doesn't understand what has happened in the market during the past several decades, with the rich getting richer and the powerful becoming more powerful.

As a result, there is legislation upon legislation to artificially set forth standards designed to artificially create competition and to curb the growth of conglomerates when this would be best accomplished in the free enterprise system by competition. With regard to the possibility of aid to Chrysler, the element of competition is being removed.

The American economic philosophy is predicated on a free market system in which all businesses, large or small, can compete on an equal footing. Our free enterprise system gives everyone the right to succeed or fail on one's own merits. And yes, failure is as much a part of the free enterprise system as is success, and when the element of failure is removed, the system is destroyed.

I am not out to crucify Chrysler. I wish it the best in its battle to reverse its financial misfortunes. I don't blame Chrysler for seeking Federal assistance after the precedents set by the Government with $250 million in guaranteed loans to bail out Lockheed and $150 million in loan guarantees to save Wheeling-Pitt.

However, I'm not going to stand by for more Government control of, and attacks on, the free enterprise system. I am not going to stand by and watch inefficiency rewarded while thousands of other businesses go down the tubes.

Just as one small example, and I try not to be parochial in my interests—how do you think they feel in the Naugatuck Valley of Connecticut where literally hundreds of small businesses have gone under over the years? Those businesses tried their best; but they couldn't make it. However they didn't have the army of high priced lawyers and executives pleading their case in the halls of Congress. So now they are out of business.

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Mr. Chairman, I am going to do everything I can to prevent the Federal Government from taking another step toward the destruction of our free enterprise system by bailing out Chrysler. I don't want to hear any more comments as I did during Wheeling-Pitt that there is some political or self-interest involved in my opposition to this. It is a matter of principle. It always has been, and continues to be.

Senator Levin, in his comments, said he looked forward to a debate in greater detail on the Senate floor relative to this particular piece of legislation. I can assure my good friend Senator Levin, and my good friend Senator Riegle, that we shall have such a debate in greater detail on the Senate floor.

[Prepared statement of Senator Weicker follows:]

STATEMENT OF SENATOR LOWELL WEICKER, JR.

Mr. Chairman and members of the committee, thank you for providing me the opportunity to discuss the question of federal financial assistance for the Chrysler Corporation.

To be blunt, I am unequivocally opposed to federal aid, in any form, to Chrysler.

The notion of the federal government providing financial assistance to rescue a private company is inconsistent with the free enterprise system. This system, which underlies the American economic philosophy, is based not only on rewarding good judgment and hard work with success, but also on the principle that failure is a consequence of bad judgment and poor products. The day our nation reaches the point when businesses are not concerned with the possibility of failure because the federal government will be there to save them is the day America concedes the eventual failure of every enterprise and resigns itself to the gradual nationalization of all industry.

Chrysler would have one believe its financial problems stem predominantly from excess and unfair government regulation schedules and requirements. But the facts of the matter are that it is Chrysler's management, and not the American government, that has placed the firm in its precarious position. Chrysler's history of mismanagement is well documented. In 1941, it possessed a quarter of the U.S. passenger car market and had a reputation for engineering excellence. However, in the years after World War II, the company paid overly generous dividends while failing to modernize its factories or develop new ideas for car designs. Instead of leading the industry, it copied the successful designs of its competitors. To Chrysler, research and development leading to innovation was an expendable item.

Chrysler has been the only one of the Big Three automakers to build factory units without having dealer orders. The cost has been about $5 million per month in interest and $100 million in expenses to rid itself of excess inventory.

Despite continued losses and mounting inventories, Chrysler paid common stock dividends until the third quarter of this year and only last month discontinued preferred stock dividends. This has hastened Chrysler's financial collapse by drawing out capital which could have been used to maintain and upgrade buildings and equipment.

To compound this, Chrysler attempted to become an international conglomerate by expanding in Europe, Asia, South America and Latin America. While Chrysler has been forced to retrench, it has not abandoned its global operations. Just last month, Chrysler announced construction of a $110 million plant in Mexico to manufacture engines. The Mexican government indicated they would not fund any of this construction, so federal bailout money will be funneled abroad to finance this. The money will also be used to finance the 150,000 Japanese built Mitsubishi cars and pickup trucks which Chrysler plans to import in 1980.

And, of course, Chrysler was the last automaker to produce the small, gas saving cars the public is demanding. To this day they insist on producing family size cars. The result of this strategy is clear. The consumer is simply not buying Chrysler products. Compare the 15 percent decline in Chrysler sales during the third quarter of this year with the 14 percent increase in new car sales in October registered by AMC, which has concentrated its efforts on smaller, economical passenger cars.

Federal aid is not going to help Chrysler make the right decisions. All we will be guaranteeing is that this same company, as well as others, will be back in a few years asking for more federal assistance. It will not be any easier to say no at that time.

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Chysler talks about the effects its collapse would have on the economy. I am certainly concerned about saving jobs, but concentration on that aspect obfuscates the bigger question of the overall price that must be paid. A benign government that is so concerned about jobs that it will bail out a company for bad management must also live with the consequences of mediocrity. Excellence becomes a forgotten standard. A bailout for bad management means a reward for the unproductive. It means higher prices and wages with less productivity. With such action by government, should we wonder why we are plagued with inflation?

Actually, history has shown that the failure of a large company will not cause the collapse of the economy. We survived the 1971 bankruptcy of W. T. Grant and its 1,100 stores, 70,000 workers and $2 billion in sales; we survived the failure of the Franklin National Bank of New York, the largest bank to fail.

It is the skill and energy of the Chrysler employees, and not the fact they work for Chrysler, that will enable them to survive. This was made clear when Youngstown Sheet and Tube's huge Ohio plant closed two years ago. Today unemployment in that community is lower and local prosperity is greater.

In the long run, more jobs will be lost if the federal government hands out money to every Lockheed, Wheeling-Pittsburgh Steel Corp. or Chrysler that comes along. Such assistance would place those businesses at a tremendous advantage over those who are operating on their own. Within the auto industry itself, aid to Chrysler would put its competition at a disadvantage. Industry analysts estimate that Ford suffered nearly $900 million in operating losses on its North American operation last quarter. GM suffered an operating loss of $100 million. Both have cut production and laid off workers. Thus, the funds the federal government spends to save jobs at Chrysler will help to lay off workers at Ford and GM.

We in Congress continually hear from businessmen who demand that we get government out of their lives. I agree with their concerns. But it's a two-way street. Playing God in the automobile industry is not my idea of separation of business and government. It's not my idea of how the free enterprise system should operate.

The government was not there during the last two decades when business failures have averaged almost 15,000 annually. And it shouldn't have been. It was doing the business of government—not being a keeper for those making questionable business decisions.

A federal bailout would be unfair to the thousands of small businesses that fail each year without hope of ever receiving the type of assistance being sought by Chrysler. These small businesses are the job creators in the economy, developing 6 million jobs between 1969 and 1976, while the thousand largest firms provided no employment increase. These firms also have accounted for half the innovations in the U.S. economy in recent years at half the cost of their largest competitors. Yet they are not panhandling on the Capitol steps.

I might point out that in fiscal year 1979, a total of $2.6 billion in loan guarantees were made to all the small businesses in America. That means that the more than 13 million small businesses in this country that account for 55 percent of all private employment, 48 percent of the business output and 43 percent of our GNP, had to compete for $2.6 billion in loan guarantees. And these guarantees, which were not 100 percent, by law had to go for loans which were "of such sound value or so secured as reasonably to assure repayment." Here today we are talking about a $1.5 billion loan guarantee to one business, and we are told by Treasury Secretary Miller that this aid will not guarantee that Chrysler will succeed in the long run.

It is an unfortunate commentary on our times that the larger the size of the business and the greater its wealth, the better able it is to make its voice heard in the halls of government. It is a crime when justice is meted out according to who has the most expensive lawyer. It's a sin when clout goes to those with the largest lobbying and advertising budgets.

The words on the Supreme Court building say "Equal Justice for All." Shouldn't there be equal treatment for all in the halls of Congress?

The American economic philosophy is predicated on a free market system in which all businesses, large or small, can compete on an equal footing. Our free enterprise system gives everyone the right to succeed or fail on one's own merits. Yes, failure is as much a part of the free enterprise system as is success. When the element of failure is removed, the system is destroyed.

I'm not out to crucify Chrysler. I wish it the best in its battle to reverse its financial misfortunes. And I do not blame Chrysler for seeking federal assistance after the precedent set by the Government with $250 million in guaranteed loans to bail out Lockheed and $150 million in loan guarantees to save Wheeling-Pitt.

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However, I'm not going to stand by for more government control of, and attacks on, the free enterprise system. I'm not going to stand by and watch inefficiency rewarded while thousands of other businesses go down the tubes.

Therefore, I will do everything I can to prevent the federal government from taking another step toward the destruction of our free enterprise system by bailing out Chrysler.

The CHAIRMAN. Thank you, Senator Weicker. Senator Eagleton?

STATEMENT OF THOMAS F. EAGLETON, U.S. SENATOR FROM THE STATE OF MISSOURI

Senator EAGLETON. I will be brief. Practically every Senator who testified from this table or spoke from the rostrum has used the word "precedent" and I will address my remarks solely to that issue, precedent.

I do so by asking a couple of questions. What is the precedent of refusing to help a company which directly and indirectly accounts for 500,000 to 600,000 American jobs, even at a time when our economy is sliding to a recession? What is the precedent of standing rigidly on some supposed principle while one of our major auto makers, and perhaps the entire U.S. auto industry, is overwhelmed by foreign competition which finds itself particularly well-served by our energy crisis?

What precedent do we set in refusing to help a major corporation caught up in an extraordinary convergence of adverse circumstances? What lines should we draw? Shall we announce to the world that there is no circumstance that would persuade us to consider assisting even a basic industry over a difficult period?

In truth, Mr. Chairman, I see little value in debating precedents. The fact is, ours is a mixed economic system. I could find a precedent for just about any action we want to take, but a precedent, Mr. Chairman, isn't a holy writ that has to be rigidly followed regardless of the situation or regardless of the cost. I believe the genius of our economic system is its adaptability to the problem at hand. The problem we are concerned with here today is the likely collapse of a major U.S. auto company, which has been stretched to its limit in an effort to adjust to a rapidly changing marketplace.

Our choice is simple, as I see it. We can let the company fail, at huge costs to the taxpayer, and at a huge benefit to foreign auto makers—that's it. Or we can take a calculated risk, and that is what it would be, to help the company over its difficulties with some form of loan guarantees. And that, in my opinion, is the nub of the issue, Mr. Chairman, and I would resolve it in favor of the Chrysler bailout.

[Prepared statement of Senator Eagleton follows:]

STATEMENT OF SENATOR EAGLETON

I will make this statement brief.

I fully support loan guarantees to the Chrysler Corporation. We have no guarantee, in return, that this assistance will save the company, but, given the economic and social costs of doing nothing I believe it is a risk worth taking. After months of Treasury Department scrutiny of the company's recovery plan, I believe I am safe in saying it is a well calculated risk.

While we are on opposite sides of this issue, I want to compliment the Chairman for his forceful enunciation of the case against helping Chrysler. He raises the question of precedent. If we help Chrysler, can we refuse to help other corporations? Where do we draw the line?

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I don't profess to have an answer to that. But I do have a question of my own about precedents which I think deserves equal consideration.

What is the precedent of refusing to help a company which directly and indirectly accounts for 500,000 American jobs even at a time when our economy is sliding into a recession? What is the precedent of standing rigidly by on some supposed principle while one of our major auto makers—and perhaps the entire U.S. industry—is overwhelmed by foreign competition which finds itself particularly well served by the energy crisis? What precedent do we set in refusing to help a major corporation caught up in an extraordinary convergence of adverse circumstances? What line would we draw? Shall we announce to the world that there is no circumstance that will persuade us to consider assisting even a basic industry over a difficult period?

In truth, I see little value in debating precedents. The fact is, ours is a mixed economic system. I could find a precedent for just about any action we want to take. But, a precedent isn't holy writ that has to be rigidly followed regardless of the situation or the cost. I believe the genius of our economic system is its adaptability to the problem at hand.

The problem we are concerned with today is the likely collapse of a major U.S. auto company which has been stretched to its limit in an effort to adjust to a rapidly changing marketplace. Our choice is simple. We can let the company fail at huge costs to the taxpayer and a huge benefit to foreign automakers. Or, we can take a calculated risk and help the company over its difficulties with some form of loan guarantees. I think I have made my position clear that we should take that risk.

The CHAIRMAN. Thank you very much, Senator Eagleton. Senator Bayh?

STATEMENT OF BIRCH BAYH, U.S. SENATOR FROM THE STATE OF INDIANA

Senator BAYH. Mr. Chairman and members of the committee, there has been a good deal of speculation about the impact of a loan guarantee. There have been generalities. I would like to ask the committee to look at some hard, cold specifics. According to the Department of Transportation study of the effect of a Chrysler shutdown, the most glaring conclusion, they say, is that several major industrial communities would bear a very heavy burden in any Chrysler collapse. These communities are spread throughout the country.

SEVERE ECONOMIC LOSS FOR INDIANA

I make no apologies for the fact that I am here as the Senator from Indiana, stressing the fact that two cities in Indiana would be the worst hit of any in the Nation if the Chrysler Corp. were to close its doors. Those cities are New Castle and Kokomo, and I am not dealing with philosophies or generalities—I am dealing with hard, cold reality. New Castle has been making power train components for Chrysler automobiles for over half a century, 54 years to be exact. It employs 2,607 people, with a payroll of $73 million. It provides 11.6 percent of the total employment of all of Henry County, Ind. If we are to assume that two other jobs are created by each job in manufacturing—which is the premise—the Chrysler shutdown would reduce employment by one-third in this Indiana county of 53,000 people.

Chrysler plants in Kokomo, Ind., employ 6,764 people. This is 13.9 percent of the total employment of Howard and Tipton Counties, which is the Kokomo Standard Metropolitan Statistical Area; 904 people are employed in the making of aluminum castings; 5,860 people are employed producing both automatic transaxles for front wheel drive vehicles and automatic transmissions for rear wheel

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drive vehicles. These plants are 13 and 14 years old, respectively, with an annual payroll of $189 million.

Again, assuming the 2-to-1 ratio, which I think is a fair assessment of other jobs created for each manufacturing job, over 40 percent, 40 percent of the jobs in the two counties I just mentioned, of an area of over 100,000 people, are dependent upon these two plants.

The second largest Chrysler plant in Indiana is in Indianapolis; 4,042 people are employed in our State's largest city, making engine castings, electrical components, and power steering units with a payroll of $113 million.

Another plant in Michigan City makes plastic parts and employs 295 people. All told, Chrysler in Indiana employs 14,675 people; pays $410 million in wages; purchases $603 million in supplies—for a direct impact by Chrysler on Indiana, from wages and purchases alone, of $1 billion.

That is not to mention the indirect impact of jobs which are secondarily dependent on these wages and purchases, which will probably add an additional $2 billion. I would just like to point out that these are not speculative figures or generalities. In the case of Howard County we are talking about a community which already has an unemployment rate of 11.9 percent, and Henry County has an unemployment rate of 11.3 percent, because of the actual conditions which exist in Chrysler today.

I must say, I listened with a great deal of interest to the discussion back and forth, and I wonder if maybe we are not dealing with the real role of the Senator. I make no apologies for the fact that I am here to try and stress a particular problem that affects Indiana. I doubt if there is a single Senator, certainly not one worth his or her salt, that hasn't tried to use his or her influence to make the system work, dealing with a unique problem affecting their community.

HIGH COST FOR UNEMPLOYMENT

This is not a unique problem affecting Indiana. It affects the entire United States of America. It seems to me we have to face reality, facts as they are today. We talk about the hidden cost of helping Chrysler on one hand—I think we better remind ourselves of the hidden costs of not helping Chrysler, on the other. These include the cost of unemployment compensation and the welfare payments, not only for Chrysler but for hundreds of thousands of other workers involved; the loss of tax revenues in major communities in the United States; less competition for the consuming public as another automobile firm goes under; and the $2 billion increase in the deficit of our balance of payments.

Mr. Chairman, I compliment the committee for asking tough questions. This is a serious step. It is a serious step.

I am glad that the legislation that we have introduced pays particular attention to the importance of sound management to protecting the taxpayer versus other creditors, to emphasizing loan guarantees, not grants, and to moving toward a successful industry that can pay taxes and employ people.

I trust that the committee, in its wisdom, would make this bill even better. It seems to me rather clear, Mr. Chairman, from my

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perspective, the cost of helping Chrysler keeping people working is a lot less than the cost of not helping Chrysler and having not only Chrysler but a whole series of other companies, with the ripple effect, go bankrupt—with the result of hundreds of thousands of Americans out of jobs.

That is why I am here, urging you to enact this legislation before the Senate goes out of session this year, and I would ask that the remainder of my statement be made a part of the record at this point.

Mr. Chairman, you have two different bills before the committee. I am not wedded to the details of either bill, but I am committed to providing sufficient assistance to Chrysler to provide a good prospect for its survival.

I would, however, like to point out that both bills do contain important safeguards for the taxpayer including requirements that loans be adequately collateralized, a prohibition against payment of dividends, and a preferred position of the Government as against other creditors. Certain provisions may be waived by the Secretary of the Treasury or Emergency Credit Assistance Board, but only if there is reasonable protection for the United States.

Before a guarantee is made, there must be reasonable assurance or prospect of repayment. Credit must not otherwise be available, and the interest rate is prescribed in both bills. Loans must be payable no later than 10 or 11 years from now, and collection of a guarantee fee is required. The Secretary of the Treasury or the Board has the power to require management changes before issuing guarantees if the inability to obtain credit is a result of management failure to exercise reasonable business prudence.

The Treasury bill (S. 1965) contains a requirement that there be a management and financial plan for the next 4 years which includes $1.5 billion in financial commitments or concessions from persons with an existing economic stake in the corporation, from capital obtained through merger or sale of securities, and from disposition of assets as a condition for Federal guarantee of up to $1.5 billion in loans.

The original bill which we introduced (S. 1937) did not specify a maximum amount that could be guaranteed. However, I would hope that the amount which the committee decides upon would be sufficient so that there is a good prospect of Chrysler's success rather than just making Chrysler's situation a marginal one. The original bill which we introduced also contained a requirement that a portion of the guarantee be used for loans through an employee stock option plan.

Again, Mr. Chairman, I want to thank you for your willingness to consider this matter, and I would strongly urge that legislation be enacted before the end of this year.

The CHAIRMAN. Before you get away, I want to commend you on your statement. The other Senators, too, I thought, made most impressive statements, and certainly you did, too. You are absolutely dead right about the effect on Kokomo, particularly. I noticed it is by far the most hit city in relation to its population. The number of employees in Kokomo is very substantial. The adverse effect on that city would be more painful than any other.

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I am puzzled about the attitude of your Governor, however. I would like to read you a short article from an Indiana paper and ask you to comment on it. It says:

"The bankruptcy of the Chrysler Corporation would be a tragedy to the state, but Indiana taxpayers should not be asked to bail out the financially ailing company. Governor Otis Bowen said today—he made these remarks during a press conference this morning in Mishawaka: "Some 15,000 unemployed at Chrysler plants in this state believe the firm should come at the federal level, not from state revenue." Bowen said it would be a tragedy for us to lose them but we cannot dole out a lot of money to the company.

Bowen said of Chrysler, "It would be unfair to bail out one company. What about their competition? It is proper to help Chrysler to help themselves but not a bail-out. If they go out of business, it would be unfortunate but there will be other industry to take their place." Bowen said, "The economic recovery made by the South Bend-Mishawaka area in the closing of the Studebaker Corporation in 1963 and similar recovery efforts should be needed should Chrysler fold," he added.

One of the conditions stressed by the Treasury is that everybody who is involved here, particularly those who would benefit, contribute, and among those cited especially are State and local governments. You have made, I think, a strong case that Indiana would be adversely affected. Why shouldn't we expect Indiana's State government to make a substantial contribution here, substantial investment?

As I understand it, the Michigan State government has indicated they intend to do that. Other States may do that, also. Why should we make that a condition, that a State which would be as seriously affected as Indiana should be required to make a contribution to the recovery of the Chrysler Corp.

SIMILARITY OF LOAN GUARANTEES

Senator BAYH. I find a great deal of similarity between the kind of loan guarantees that have been given other entities and Chrysler. They are not identical, but if one considers the size of the loan compared to the size of the impact on society generally in this country, I don't think this is the kind of precedent that some people are talking about.

I have no objection for a cooperative effort for State and local government to join with the Federal Government to try and keep this company working, and its people employed in providing for themselves. A very hard fact of life is that we are talking about a loss of revenue in places like Kokomo and New Castle of several million dollars in local revenue, and we are talking about even greater figures of loss of revenue to the State of Indiana.

The CHAIRMAN. Precisely. That is why we would expect Indiana, as a State, to come in and provide assistance. We argue for this program for the Federal Government because otherwise the Federal Government in part will lose a great deal. The Federal Government helps out Chrysler—that would be to the great benefit of the State of Indiana, so why shouldn't they come in and help? Why should they accept a position which the Governor says the Federal Government should help but not us?

Senator BAYH. I have no objection to that position, Mr. Chairman. I think there is a remarkable degree of inconsistency with that standard being imposed on Indiana or other places where Chrysler plants were located, whereas similar criteria have not

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been established on other States where industries were similarly affected or significant amounts of Federal loan guarantees were provided.

The CHAIRMAN. All right. I think that is a very useful point. I think that is one we should consider, also. Thank you very much.

[Complete statement of Senator Bayh follows:]

STATEMENT OF SENATOR BIRCH BAYH

Mr. Chairman, I am very pleased to be here today to testify on behalf of Senate Bills 1937 and 1965 which I have joined Senator Riegle and others in co-sponsoring. Both bills provide for Federal guarantee of loans made to Chrysler Corporation to insure its survival as a major automotive producer and employer. I am grateful that the Senate Banking Committee has chosen to deal with this matter promptly, and I hope the full Senate will be able to take action on legislation to resolve Chrysler's problems before the Senate goes out of session this year.

As a Senator from Indiana, I have a particular concern for the future of Chrysler Corporation. According to the Department of Transportation study of the effect of a Chrysler shutdown, "The most glaring conclusion of our analysis is that several major industrial communities will bear a very heavy burden in any Chrysler collapse." Two cities in Indiana would be the worst hit of any in the nation if the Chrysler Corporation were to close its doors. Those cities are New Castle and Kokomo.

New Castle Forge and Machining has been making powertrain components for Chrysler automobiles for over half a century—54 years. It employs 2,607 people with an annual payroll of $73 million. It provides 11.6 percent of the total employment for all of Henry County, Indiana. If we assume that two other jobs are created by each job in manufacturing, a Chrysler shutdown would reduce employment by one-third in this county of 53,000 people. Unfortunately, this is as old as any of the Chrysler plants. In the event of bankruptcy, the potential for its productive capacity being used by another company is not very good.

Chrysler plants in Kokomo, Indiana employ 6,764 people. This is 13.9 percent of the total employment for both Howard and Tipton Counties which constitute the Kokomo Standard Metropolitan Statistical Area (SMSA). 904 people are employed in the making of aluminum castings, and 5,860 people are employed producing both automatic transaxles for front-wheel drive vehicles and automatic transmissions for rear-wheel drive vehicles. These plants are 13 and 14 years old respectively with an annual payroll of $189 million. Again, assuming the 2-to-1 ratio of other jobs created for each manufacturing job, over 40 percent of the jobs in the two county area of 100,000 people are dependent on these two plants.

The Kokomo transmission plant does have modern tooling and does produce for outside companies, but it is not entirely renovated. The DOT study estimates that retooling here would have to be pervasive for integration into some other company's product base. The study suggests that even if this plant were eventually acquired by another company, the result would still be lower employment possibilities even after some period of time.

The second largest Chrysler plant in Indiana is located in Indianapolis. 4,042 people are employed in our state's largest city making engine castings, electrical components, and power steering units with a payroll of $113 million. Another plant in Michigan City, Indiana, makes plastic parts and employs 295 people.

All told, Chrysler in Indiana employs 14,675 people, pays $410 million in wages, purchases $603 million in supplies for a direct impact by Chrysler on Indiana from wages and purchases alone of over $1 billion. That is not to mention the indirect impact of the jobs which are secondarily dependent on these wages and purchases—probably an additional $2 billion.

I have gone into this detail so you understand that a Chrysler shutdown would devastate the economy of two medium sized Indiana cities and the surrounding counties. Preliminary employment figures for September indicate that unemployment in Howard County where Kokomo is located has already reached 11.9 percent and unemployment in Henry County where New Castle is located is at 11.3 percent.

Mr. Chairman, I believe we have an obligation to avoid the human suffering and the economic costs which would fall on everyone by encouraging financial institutions to make additional funds available to Chrysler during this time of transition. These potential costs include the costs of unemployment compensation, public assistance, pension fund guarantees, and loss of Federal revenues. Various estimates of these costs have been made, but they conservatively run in the billions of dollars.

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Mr. Chairman, you have two different bills before the Committee. I am not wedded to the details of either bill, but I am committed to providing sufficient assistance to Chrysler to provide a good prospect for its survival.

I would however like to point out that both bills do contain important safeguards for the taxpayer including requirements that loans be adequately collaterialized, a prohibition against payment of dividends, and a preferred position for the government as against other creditors. Certain provisions may be waived by the Secretary of Treasury or the Emergency Credit Assistance Board, but only if there is reasonable protection for the United States.

Before a guarantee is made, there must be reasonable assurance or prospect of repayment. Credit must not otherwise be available, and the interest rate is prescribed in both bills. Loans must be payable no later than 10 or 11 years from now, and collection of a guarantee fee is required. The Secretary of the Treasury or the Board have the power to require management changes before issuing guarantees if they find that the inability to obtain credit is a result of management failure to exercise reasonable business prudence.

The Treasury bill (S. 1965) contains a requirement that there be a management and financial plan for the next four years as a condition for Federal guarantee of up to $1.5 billion in loans. That plan must include $1.5 billion from financial commitments or concessions from persons with an existing economic stake in the corporation, from capital obtained through merger or sale of securities, and from disposition of assets.

The original bill which we introduced (S. 1937) did not specify a maximum amount that could be guaranteed. However, I would hope that the amount which the Committee decides upon would be sufficient so that there is a good prospect of Chrysler's success rather than just making Chrysler's situation a marginal one. The original bill which we introduced also contained a requirement that a portion of the guarantee be used for loans through an employee stock option plan.

Again, Mr. Chairman, I want to thank you for your willingness to consider this matter, and I would strongly urge that legislation be enacted before the end of this year.

ESTABLISH FEDERAL CREDIT BUDGET

Senator GARN. Could I ask Senator Bayh one general question? Not in specific relationship to Chrysler loan guarantee, but yesterday Governor Nancy Teeters of the Federal Reserve Board testified before the House Budget Committee regarding the expansion of Federal credit programs in general, testified that Federal loans and guarantees now total over $350 billion, or nearly double what they were just 10 years ago, at $157 billion. She has supported the establishment of a Federal credit budget to insure some control over Federal guarantee programs.

I agree with that. We are constantly talking in our budget process about getting control of the uncontrollables and all of the off-budget items. A general question is: Aren't we continuing to get the cart before the horse in continuing to approve more loan guarantees as a general thing? We as Senators, Congressmen, ought to be looking at some mechanism for control of this expanding off-budget area, before we launch into a huge $1½ billion additional.

I think that is something we ought to be doing before we consider this. Should we set up a procedure?

Senator BAYH. No, I don't think we should wait. I think we ought to be looking into it, but I think the danger of a Chrysler bankruptcy would have tremendous consequences. I can honestly say I have the same kinds of vibrations in the pit of my stomach that apparently some of you have about doing this, but when I weigh off those concerns and those costs versus the concerns and costs of the consequences of no action, then I think we have a couple of difficult choices. To me, the—it is not the easy choice—the less difficult choice would be to keep Chrysler functioning, and try to get it back

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so it is profitmaking. I have been holding hearings on an effort to try to determine what the prudent thing to do in our efforts to balance the budget is, whether we should have a constitutional amendment or some other vehicle. We had a wide array of economists and experts, as well as colleagues testifying.

Interestingly enough, if we look at where a lot of that credit has gone, it has gone out there in the private sector. The deficits of the private sector have increased enormously. If we are talking about how we can constrain this, I would hope that we would ask Ms. Teeters and some others to add up the cumulative effect of the kinds of loan guarantees that most all of us think are important for owning homes, small businesses, and farm operations. I don't see much criticism of these guarantees, and frankly, I think they provide a very useful role.

But the cumulative effect of those, I think, has the same kind of impact on the money situation as the other, more obvious activities of the Federal Government.

Senator GARN. But you would agree—and what I am driving at is beyond the Chrysler situation and the loan guarantees. What you are referring to in a constitutional amendment, whether we should or should not, is the on-budget items. At least we do have some control over that. We have an appropriations process. We have budget process.

My point is, this is just another piece in a tremendously expanding off-budget item area. I am sure you would agree in general that we ought to start addressing ourselves to control over this whole area of off-budget items and have some procedure like we do in the budget process for controlling that and making decisions.

Senator BAYH. If we are concerned about the impact of spending on the general state of the economy, it seems to me we have to take into consideration the whole picture.

At the same time we are trying to restrict on-budget items and to make it look good from an expenditure standpoint, we have a number of Government policies that create significantly greater expenditures on off-budget items, and I concur that that is something that we ought to look at if we are really concerned about this whole business.

CONSTITUTIONAL AMENDMENT INCREASE LOOPHOLES

It has been pointed out by a number of people concerned about deficit spending that if we pass a constitutional amendment it will increase the temptation to create other off-budget item loopholes. So you can say on one hand, here we have really balanced the budget, but you have a lot of off-budget items with the money going out the back door.

Senator GARN. Regardless of what we do in this individual case with Chrysler, it seems to me that Congress has the responsibility to come up with a procedure and a mechanism before the next Chrysler comes along. We just keep adding to it without any process for handling it. Thank you.

The CHAIRMAN. Senator Byrd has submitted a statement for the record. Without objection it will be inserted at this point as though read.

[Statement follows:]

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STATEMENT OF SENATOR ROBERT C. BYRD

INTRODUCTION

Senator BYRD. I thank the committee for the opportunity to testify on possible Federal aid to Chrysler Corporation. Chrysler aid is the subject of tremendous national debate and concern.

The decision taken by the Congress will set important precedents. Our decision will have a tremendous impact on the economy of the mid-West as well as on the Federal Treasury.

I am confident that this distinguished committee will make its recommendations to the Senate only after thorough, thoughtful consideration.

SELF-HELP

I have been observing the evolution of this issue for some time. On September 6, in remarks on the Senate floor, I suggested that Chrysler must exhaust all self-help possibilities before the Government could properly offer assistance. I am not yet convinced that all avenues have been thoroughly explored. In addition, it could be that the company's requirement may not justify the amount contained in the administration proposal. However, I am pleased that the Treasury's loan guarantee proposal would require the company to raise additional unguaranteed capital. I hope that the committee will predicate any Federal assistance on a similar requirement.

EMPLOYEE OWNERSHIP

In that same September 6 address and on many subsequent occasions, I also recommended that any Federal aid to Chrysler be linked to the transfer of a significant amount of Chrysler stock to its employees. I believe that such an approach could be a boon to Chrysler's productivity.

An employee stock ownership plan, such as that which is included in Senator Riegle's bill, would result in Chrysler's receiving the same amount of cash as it would without the ESOP. And it would receive the cash just as quickly as it would without the ESOP.

In addition, by creating a trust to acquire shares for the workers, Chrysler's work force would be offered a tangible financial incentive to make the sacrifices which the Treasury plan would require. Currently, Chrysler's white-collar employees hold a substantial amount of Chrysler stock. It is appropriate that its blue-collar employees enjoy similar incentives.

Requiring Chrysler to provide its employees with approximately one-third of its voting stock has another important benefit. This "bitter medicine" will insure that assisting Chrysler will not invite a rash of appeals from other companies for Government financial aid. Diluting existing shareholders' ownership, together with the inevitable election of employee representatives to the board of directors, will discourage all but the most desperate companies from approaching the Government for help. I believe that such a disincentive must be built into any acceptable Chrysler aid legislation.

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To authorize Federal assistance without this disincentive would pass an unacceptable windfall from the Federal Government to Chrysler's financiers. Concern over this windfall could jeopardize passage of the bill.

GOVERNMENT COSTS

There are significant potential costs to the Government if Chrysler fails. Through guarantees of the company's pension funds alone, the Federal Government could lose from $750 to $900 million. If we can avoid the costs to the Government and the dislocations to the economy of a Chrysler failure, we will serve the Nation well by considering all the possible options for Federal financial aid. I believe the most attractive option is one which incorporates an ESOP, offers an adequate guarantee level to see the company through its difficult times, and requires maximum self-help.

CONCLUSION

I will be watching the Banking Committee's progress on this issue with continued interest and will be reserving my final judgement on aid to Chrysler until the hearing record is complete. My final decision will be strongly influenced by the structure of the plan which is ultimately reported by the Banking Committee.

The CHAIRMAN. Senator Cranston?

Senator CRANSTON. I have no questions.

The CHAIRMAN. Senator Lugar.

Senator LUGAR. I apologize for being late.

Senator BAYH. You didn't miss a thing.

The CHAIRMAN. Yes, you did.

OPENING STATEMENT OF SENATOR LUGAR

Senator LUGAR. I have heard Senator Bayh's statements in Indiana as well as here. I suspect I share, for obvious reasons, many of the same sentiments that he has expressed here and before, because there are an enormous number of people affected by the Chrysler situation in Indiana. I suppose both he and I are struggling with ways in which events taking place far beyond our State boundaries, finally come into the lives of human beings in Kokomo, New Castle, Michigan City and Indianapolis.

I am going to listen carefully to all of the testimony in the hearings because I am not yet certain what course of action we ought to follow. I would look forward to working with my colleague and with members of this committee, who are very interested in establishing public confidence that whatever plan is adopted will get the job done. Similarly important is public confidence in the Chrysler management, in the product line ideas they have, in the nature of the competition, and the battle plan they are proceeding to present to us.

I have many questions about the financial plan and especially about Chrysler's ability to raise its $1.5 billion matching share. In this regard, the committee's consideration of the New York City aid legislation has been cited as a parallel situation. In the New York City case, however, the committee had before it a plan of how its share of the financial package would be put together. This we do not have at the present time in the Chrysler proposal. Perhaps

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the committee will need to have that before it can approve loan guarantees for Chrysler.

It seems to me for any of us to support this, there must be some assurance that the plan is going to work, that it is adequate, and that management, labor, and local communities have been thoughtful about it. Second, it is crucial that the taxpayers of the country remain secure, so that if the Chrysler plan does not work, they will get their money back. I think that a plan which meets these considerations is saleable.

Without those qualifications, it seems to me that we really are skating on thin ice. I am hopeful, however, that in the course of these hearings, in private discussions, and finally in the markup, that we can come up with a plan that will give new sustenance to the Chrysler Corp. as well as assurance to the taxpayer.

I am certain that you share these concerns, and I take this opportunity simply to point out my own feelings about it. May I ask you, though, what do you think is the employment situation for Chrysler Corp. and if declining employment appears likely, how do we present this to employees, whether they be in Indiana or elsewhere? I ask this in light of the fact that layoffs are occurring presently, in Indiana and elsewhere, at General Motors and Ford. It is a very tough automobile market presently.

It would appear that some Chrysler employees in Indiana and elsewhere are simply never going to be rehired. The entire industry may shrink down.

What I am wondering is, while we are in the process of taking a look at the corporate structure, what sort of recommendations are we going to make to people who are now involved in the Chrysler predicament who, through no fault of their own but through simply the attrition of that company, are going to be unemployed.

In other words, as a corollary of whatever we are talking about with Chrysler, what sort of other policies should be adopted or should be offered, or what recommendations do you have for people who are already casualties and the many more who may become so, regardless of whether the legislation passes?

Senator BAYH. I would hope that we could persuade the automobile industry to get off of the seats of their pants and compete more effectively in the efficient car market, the small car market, so that some of those Chrysler workers and Ford and General Motor workers who are laid off now would be reemployed making vehicles that will be competitive and appealing to the consumer in this energy-tight situation.

I must confess that that is the subject of another long frustration of mine—why we have not with all of our ingenuity been able to foresee and go out and compete. We can make small cars as well and as appealing as all of the other nations that are now pumping them into our marketplace. I think that is one of the places where the automobile companies really have to concentrate if they are going to get back into the healthy condition that we want them to.

Senator RIEGLE. Would the Senator yield on that point? I think it is a very important aspect of this problem that we are going to need to examine a lot more carefully than we have in the past. There are some more things that can be observed.

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First of all, the Chrysler Corp. has said that it sees itself with the responsibility to continue, assuming that it remains in operation, to take workers that might be displaced here or there because of shrinkage or changing from one facility to a different facility they will try, to find jobs within the company for those workers, to give them a priority in that regard. So that would ease some of the problem..

In addition, you know that we have a host of Federal programs that are designed to try to kick in at a point where workers in large numbers become unemployed. Those are temporary measures.

But if you are dealing with a nominal shrinkage of a firm that is going through a difficult adjustment and transition, that is one scale problem, whereas if we suddenly have 600,000 unemployed workers to deal with as a group, it really swamps our mechanisms. We really don't have any kind of safety net that has been devised to try and respond to a catastrophic unemployment situation of that sort.

This is why I think that if we are able to work our way through this problem, there will be hardship and difficulty. We are going to have to find new ways to manage it. It is a problem of an altogether different magnitude and the worst case we will find ourselves having to deal with, where clearly we are unequipped presently to respond to it.

Senator LUGAR. If I could respond briefly to the Senator, it seems to me one of the problems we will have to take a look at in this solution, however, is one in which the ongoing Chrysler Corp. may be substantially smaller. The only way in which the company might survive, in fact, may not result in an incremental change, rather thousands, maybe tens of thousands, of workers are no longer employed.

I don't want to raise impossible burdens. You are quite correct that if you could save half or two thirds, it is far better than zero. I think we are going to have a number of situations, if we are honest about this, in which we cannot assume that 110,000 or 150,000 people will necessarily be employed after all of this is over, although many people now enter this debate feeling that this is what it is all about.

Therefore, it is a problem of what to do in New Castle, Ind. This is very acute because it could be that there are some things that are not going to reopen in that community in quite the same way. This is too much detail for the moment, but I wanted to raise that with Senator Bayh because we have that problem very clearly in New Castle as a specific economy and to a great extent in Kokomo, and it is now clear, even if there is an overall Chrysler situation, precisely what will happen to those communities and what corollary plans we ought to be thinking about.

The CHAIRMAN. Could I ask the next witnesses to come forward? The Honorable William Brodhead, Ronald Paul, Phil Gramm, Dick Cheney, and Ellwood Hillis.

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STATEMENTS OF WILLIAM M. BRODHEAD, REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN; RONALD E. PAUL, REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS; PHIL GRAMM, REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS; DICK CHENEY, REPRESENTATIVE IN CONGRESS FROM THE STATE OF WYOMING; AND ELLWOOD H. HILLIS, REPRESENTATIVE IN CONGRESS FROM THE STATE OF INDIANA

Senator RIEGLE. I will be very brief because our other Senate witnesses have had to leave. I was called out of the room to take a phone call from the Governor of my State. I simply want to make two comments that relate to the testimony that was given and also to the comments of Jake Garn—that is, I think I would say, Senator Garn, you are absolutely right that this situation is pulling into focus, more than it ever has before the whole submerged area of Federal loan guarantees—enormous area—and we are just starting to pay attention to it.

I think partly the underattention was a result of the fact that it was an off-budget item, and in a sense, it is helpful that the Chrysler situation is causing us, to try to see if we can develop some more thoughtful strategy and national policy with respect to initiatives of this kind.

I want to make one other point related to it, because I think the key here is whether or not Chrysler is of a strategic size and consequence to bear in a major way on the national interest and therefore require a special initiative, whether it is in the pattern of things we have done other times or not.

The development of international competition in the automobile industry is really incredible in the last few years. I don't think anybody understands it well, and I am frank to say that I did not fully appreciate it until we got deeply into the problem. Many people who study the automobile industry today will say to you that it is a world market and not just an isolated American market and that there are really two major firms—General Motors and the Japanese—that everybody else sort of falls away in rank below that.

The fact that our balance-of-payments deficits in motor vehicles is now the second biggest item behind oil at $7 billion and rising—and the Japanese are planning right now to come in and make additional gains in our market and increase those if Chrysler should fail—raises profound structural questions about economic strategy for this country and whether or not we are well served to let that development take place.

I would hope that as we try to modernize and get ourselves back into the game so that we can compete more effectively with that foreign competition, that we won't cripple ourselves in the process. We are halfway through the modernization of Chrysler. There is nothing that the Japanese would like more right now than for us to stop doing that and see that these facilities, the four-cylinder car facilities and the front-wheel-drive facilities not be completed, because they want to come in with their products. They are all set to do it; they have been developing these kinds of cars for years, partly because of the energy policies in their countries, and that is the kind of issue that is buried in the Chrysler problem that has to

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be lifted to the surface. I know many of my colleagues touched on it, and I hope we will have a chance to discuss it more fully.

The CHAIRMAN. Our first witness is Congressman William Brodhead from the State of Michigan. Mr. Brodhead, what district do you represent? Is it the Detroit area.

Mr. BRODHEAD. Yes.

Thank you for giving me the opportunity to appear before this committee. I want to join Senator Levin in commending you for the expeditious and fair manner in which you are handling this hearing, despite your own personal views on it.

There is one aspect of this argument that I wanted to deal with, Mr. Chairman and members of the committee. It has been said by many people that it is somehow inappropriate for the Federal Government to come to the assistance of the automobile industry and of Chrysler Corporation in particular.

FEDERAL ASSISTANCE FOR OVER 100 YEARS

If we just look at what has been going on in this country for over 100 years now, we will find that the Federal Government has come to the assistance of a whole range of industries—agribusiness, Government-subsidized irrigation, weather prediction and other services. The shipping industry receives massive subsidies from the Federal Government. The textile industry receives special import protection. The railroad industry has a long history of assistance going back over 100 years when the Federal Government assisted the railroad industry in gaining its rights-of-way. The airline industry benefits from special taxes levied by the Federal Government to provide airports and safety protection.

The steel industry, which has been cited here today, receives loan guarantees. The petroleum industry receives special tax incentives to encourage production. The housing industry receives massive loan guarantees through the FHA and VA programs and special tax breaks for real estate development and construction.

The health-care industry receives better than 25 percent of all of its revenues directly from the Federal Treasury. The aerospace industry benefits greatly from Government research and development, the Lockheed loan guarantee and assistance in marketing its products abroad.

This has been going on for a long time, and it is really part of our system. To say that what we propose to do in the Chrysler situation goes against our tradition or our history or what has been going on in our economic system is to take a head-in-the-sand attitude.

The arguments for assisting Chrysler are even stronger than the arguments for doing these other things that we are doing. It is important to assist Chrysler because we must preserve competition in the automobile industry. It is important from the balance of trade standpoint. Also, it is important to remember that the Japanese have a marriage between their automobile industry and their Government, and that is the reason why they are so successful.

It is important also because of the tremendous ripple effect that a Chrysler failure would have on the economy. It has been amply demonstrated I think by every study that has been done, and I

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have never seen it contradicted, that the cost of a Chrysler failure is far, far greater than the cost of assisting Chrysler.

The most important reason why it is entirely appropriate and logical and sane for us to assist Chrysler is because Chrysler's problem results simply from action that the Federal Government, that the Congress and the Presidents have taken over a number of years now. We have made a decision as a Nation, a decision which the Congress approved and Presidents Nixon, Ford, and Carter supported, that requires the automobile industry to meet certain safety standards. This decision requires the automobile industry to meet certain emission standards and fuel economy standards, and these kinds of changes require massive capital investments.

HUGE CAPITAL INVESTMENTS FOR CHANGES

The reason why Chrysler is in difficulty is because it has had to make these huge capital investments and will have to make them in the future in trying to conform to decisions that the Congress has made and that the Presidents have signed into law.

So if they are going to meet these national goals, they are going to need some assistance. And that is very simple and very logical and very basic.

I submit we have done all of these things for all of these other industries. We ought to do it for the automobile industry.

Thank you.

The CHAIRMAN. Thank you. Mr. Paul?

Mr. PAUL. I have submitted a written statement.

The CHAIRMAN. It will be printed in the record.

Mr. PAUL. I am on the Banking Committee and have listened to testimony in the last several weeks. I was surprised that the Chrysler bill was referred to the Banking Committee. I thought the welfare legislation went to the other committees. [Laughter.]

I break down welfare into three groups. One group is corporate welfare. The second is welfare for big labor. And the third is the conventional type of welfare, such as food stamps for the poor and the indigent.

LEGISLATION FOR WELFARE

I consider this bill a piece of welfare legislation for the corporation and big labor. I think that this bill is a good demonstration that you can get what you want if you are big enough. If you have clout, then you can get what you need or what you desire from Washington.

It shows that if you are large and you have lobbyists and you have disciplined people coming here to lobby for what you want, you can get it.

In contrast, it was reported in the U.S. News & World Report that there were nearly 200,000 bankruptcies last year, both individual and small business. These people did not get any help, which means that we must raise a moral question: If you are big, you get something; if you are little, you get left outside.

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It has been said many times that the corporation and the labor unions aren't looking for anything. They don't want anything for free.

Well, why do they come here? It has to cost someone. There has to be some risk, and the risk is on those taxpayers who are not going to receive any immediate benefit.

It has been said that this is nothing new. One of the strongest arguments for granting this loan is that loan guarantees are nothing new.

It is interesting that in all of the hearings that we have had, we have had various reports on how many loans we have guaranteed in the past. They have ranged from $200 to $400 billion. I think this is interesting because I don't think anybody knows. I think we are sort of out of control up here and we don't know how much we guarantee. I suspect it is closer to the $400 billion that Lee Iacocca reported in his testimony.

Rather than using this for justification for further guaranteed loans, I think that this is something that we ought to look at carefully and see if any of those loans were justified in the past.

Possibly it was that system of guaranteed loans that brought us to this economic calamity that we are facing. It was said by Alan Greenspan in his testimony that the single most important cause of inflation has been the guaranteed loans. Those loans have contributed to and have caused the increase in credit. Not only do we talk about guaranteeing $1.5 billion worth of credit here, if the markets do not provide this money it will have to be created.

We only say $1.5 billion. What is $1.5 billion? We have already guaranteed $400 billion. It is just one more fix for the addict. It is one more drink for the alcoholic. It is one more cigarette for the man who is developing a cancer.

What difference does it make? Possibly one drink to the alcoholic doesn't make the difference, and this is why the arguments are so strong for the bailout.

This $1.5 happens to be more than it appears to be. If it does come from new credit creation, which is very likely, this, as it goes through the market place and through the banking system, could well end up being representative of $9 billion of new money in the system.

WAGES BEING SUBSIDIZED

We have to address the fact that high wages are being subsidized here. There is no question about it. The average wage earner for UAW is making $15 per hour, twice as much as the average wage earner who is not in the UAW.

The contract now guarantees that in the next 3 years, the Chrysler workers will receive $500 million worth of additional wages. That is, if we have an inflation rate of 8 percent. If it is higher, the wage increases may be more. So over the period of time of the 10 years of the guaranteed loan, this could well add up to the $1.5 billion we are giving them.

In essence, I believe that we are financing the demand, the contract for the higher wage. Without an increase in productivity, a real wage could never be increased. If the wages are subsidized and the nominal wage is raised through inflation, the real wage

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has to decrease because of the dilution factor and the loss of value to the dollar. And this is what we are seeing here.

Unfortunately, though, some people suffer and some people benefit. Even though the overall wage level may fall, the overall purchasing power will fall, it may be that the UAW worker will benefit for a shorter time at the expense of the inexperienced worker and the worker who has no clout.

The costs are always passed on to the little man. The corporations and the very wealthy will protect themselves from inflation and we are talking about inflation here. But the little guy, the small worker, the independent person, has no clout and cannot protect himself and will pay for all of this as he has paid in the past.

The low wage earner will be in a lot of trouble because legislation like this will lead to more turmoil in this land. The economic correction has to come from allowing the real wage of Chrysler workers to drop, allowing dividends to drop, salaries to drop, and profits to drop or disappear. But wages must drop for an economic correction or for a business that is failing.

If we do not permit them to drop, we are dealing with artificial economic factors. Inefficiencies must be removed. If they are failing because there are inefficiencies and there is a plant not doing well, to prop up an inefficient plant is irrational. The salaries, as I said, must drop. The cleaning out must occur.

Rather than using the guaranteed loans of the past as a justification, they should be used to look at all of these programs to decide whether or not what we have done has been correct. Rather than saying there has been free enterprise in the past, I would like to suggest that these loans guarantee programs have nothing to do with free enterprise.

LOANS FOR POLITICAL REASONS

Rather it has been special interest, political economics. We have passed out loans for political reasons and not economic reasons, and we have given loans to people who have not been able to get loans in the marketplace.

So we subsidize inefficiency. We reward failure. Then we wonder why our economy is failing. We pass out the loans for political reasons. We pass them out to big people. Unless we really look at the fundamentals of inflation and stop the inflation, unless we really look at what regulations are truly costing us and not accomplishing, and unless we really look at our tax structure and get rid of the high taxes, I don't think that we can correct this or any other major economic problem.

Again, a loan guarantee for Chrysler may be another cigarette on the way to cancer. It may be another fix for the drug addict. But it won't do anything to correct our problems.

Thank you.

[Prepared statement of Congressman Paul follows:]

STATEMENT OF CONGRESSMAN RONALD E. PAUL

Mr. Chairman, I appreciate the opportunity to appear before this Committee on the subject of aid for the Chrysler Corporation.

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Although I was not in Congress when either the Lockheed or the New York City bailouts were enacted, I would have opposed both of those actions, as well as the proposed action regarding Chrysler, for many of the same reasons. Let me explain those reasons.

In a nation that is sinking in a sea of debt, it is irresponsible for this Congress to be considering a measure that would add billions to that debt. The expansion of credit is one of the primary forms of inflation. It is not merely inflationary in its effects; it is inflation itself. If this $1.5 billion is created by the federal government, it will ripple and percolate through our banking system, and because of our fractional reserve system, the ultimate growth in the money supply will be far more than $1.5 billion. The standard multiplier is six; that means an infusion of $1.5 billion will eventually result in a $9 billion increase in the money supply. In his testimony before the House Banking Committee, the former Chairman of the Council of Economic Adviser, Alan Greenspan, stated that:

"Loan guarantees, insofar as the issues of inflation is concerned, are virtually indistinguishable from on-budget financing, and that the major cause of inflation in this country has been and excessive amount of credit preemption, largely in the area of guarantees, which . . .has created excessive monetary growth and is the base of inflation in the system."

A vote for the Chrysler bailout is, simply put, a vote for further inflation.

Some may argue that the inflation is necessary in order to avoid unemployment, echoing the now repudiated idea of A. W. Phillips, that less inflation means more unemployment and vice versa. The past few years of our experience with inflation and unemployment should convince everyone that high inflation and high unemployment can exist side-by-side. I believe the connection is even closer: Inflation causes unemployment—perhaps not immediately, but in the longer run—and we are now in the longer run of our past inflationary policies. It follows that a vote for aid to Chrysler, because it is a vote for inflation, is also a vote for more unemployment.

Such unemployment may not be obvious, but it will nonetheless be real. One of the things that bothers me most about this entire discussion is that it centers around only what is obvious. Saving 100,000 jobs at Chrysler is obvious; losing 100,000 jobs, one by one around the country is not obvious, but they will nonetheless be lost, should aid to Chrysler pass.

Let me explain why I believe this to be so. If this aid takes the form of loan guarantees rather than direct loans, (and, I add parenthetically, that over one billion dollars of the New York City loan guarantees has been converted into direct federal loans by the Federal Financing Bank) it will be tantamount to an allocation of credit to Chrysler. That means that Chrysler will get capital that would have gone to other more efficient and more profitable businesses. Because this capital will be diverted by these loan guarantees to a less efficient business, it is highly probable that more jobs will be lost through invisible unemployment than would be were Chrysler to fail. I hasten to point out that this will result in all the increased costs to the government that the proponents of the bailout so loudly declare they wish to avoid. Of course, the costs will not all be centered in Michigan; unemployment checks, welfare checks, food stamp benefits will increase nationwide, in big and small towns, urban centers and rural America. Rather than a few localities suffering noticeably; many will suffer almost invisibly. Workers who have nothing to do with Chrysler will lose their jobs or pay the taxes and higher prices caused by this bailout. The average industrial worker earns half of what the average Chrysler worker earns, and under the new UAW contract, the Chrysler workers will be receiving a $500 million pay and benefits raise over the next three years. I have always thought that businesses in trouble cut costs, cut wages, but did not raise them. That does not seem to be the case with Chrysler. If this three year contract is any indication of what the future holds in store, the Chrysler workers will receive far more in wage increases alone over the next ten years than this bailout amounts to. That (and other facts) would indicate to me that the Chrysler workers have not made any sacrifices and that they hope, through federal aid, to maintain their relatively high wages at the expense of the lower paid workers in this country. We are being asked to shift the burden from the relatively well-off workers at Chrysler to the relatively worse-off workers throughout America. A Chrysler bailout will be a shifting of burdens that should be borne by those involved.

Do we in the Congress have the authority, either moral or constitutional, to cause this suffering? I can find no provision in the Constitution authorizing Congress to make loans or loan guarantees to anyone, let alone to major corporations. Nor have I yet seen a valid moral argument concluding that we, as representatives of all the people, have the right to tax the American people—most of whom receive less in wages and benefits than Chrysler workers—to support a multibillion dollar corpora-

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tion. What right have we—and I pose a serious question that deserves an answer—what right have we to force the American taxpayers to risk their money in a business venture which private investors dealing in their own funds have judged to be too risky? Chrysler paper is now classified; that means that any private investor who is handling funds for his depositors, shareholders, or clients may be judged as violating his fiduciary responsibilties should he invest in Chrysler. Don't we have a trust equally important from the American people? Are we not betraying their trust by voting for a Chrysler bailout? I believe so.

Rather than supporting this patchwork and temporary "solution," we should be addressing those factors, over which we have control and for which we are responsible, that have brought Chrysler to the brink of bankruptcy. In his testimony before the House Banking Committee, President Iacocca listed three factors that caused the troubles at Chrysler: (1) government regulations; (2) inflation; and (3) the gasoline allocation system that caused last spring's gasoline shortages. Please note that all three factors are the responsibility of the Congress. We wrote the regulations or gave some bureaucrats a blank check to write the regulations. We are responsible for inflation through our mismanagement of the monetary system. And we empowered the Department of Energy to create a gasoline allocation system that brilliantly achieved what I had heretofore thought impossible: gasoline shortages in Houston, the oil capital of the United States.

It is our responsibility to diagnose the Chrysler disease accurately. Instead, we are acting like political quacks, prescribing potions to treat symptons, while the cause of those symptoms rages on unabated. Chrysler is not unique; it is merely the prototype, the harbinger, of crises to come. Dr. Greenspan testified that the most likely sequence of events, in his view, would be federal loan guarantees followed by a Chrysler failure anyway. Unless the disease is correctly diagnosed, the potions we prescribe will kill the patient.

I would urge this Committee and the whole Senate to act with more deliberation than the House has acted. This form of welfare for corporations must end. Just because it was extended to Lockheed does not mean that it should be extended to Chrysler. Bad precedents should not be followed, and these precedents are particularly bad. Because Lockheed, a large corporation, New York City, the largest city, and now Chrysler, the tenth largest corporation in the country, are the three institutions to which aid has been or will be extended, one can conclude that there is an obvious pattern of discrimination in the actions of this Congress.

Last year there were 200,000 bankruptcies in this country, according to U.S. News & World Report. Yet we have selected only one—the largest—for our aid. This is discrimination of the crassest sort. We ignore the smaller victims of this government's policies simply because they are small. Only the largest, those with the most clout, the most pull, get our attention. This aristocracy of pull is morally indefensible. What answer can be given to the small businessman driven into bankruptcy by government regulations when he asks: "You bailed out Chrysler, why not me?" No justification can be given for this discrimination between the powerful and the powerless, the big and the small.

It is an axiom of our legal system that all citizens are to enjoy the equal protection of the laws. That axiom is violated daily by our tax laws, and now by this proposed corporate welfare plan for Chrysler. Apparently some citizens are more equal than others. That is a notion I reject, and I hope you do, too. I urge you to reject this proposal for all the reasons I have stated. Thank you for your kind attention.

The CHAIRMAN. Thank you, Congressman Paul?

Congressman Gramm?

Mr. GRAMM. Mr. Chairman, I welcome the opportunity to be here today. It has been my pleasure to testify before this committee before as an economist.

The CHAIRMAN. And you have made a fine impression on the committee.

Mr. GRAMM. I am here in that role and in part representing the special interest of my little piece of Texas. It has a stake, despite the fact that it has very few Chrysler employees in the future

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economic growth of the United States, and I think that is very much tied up with the issue we are discussing here.

I would like to focus on two parts of this issue that I think have been grossly underdiscussed. I think they are really the key elements.

I would like to talk about what we are doing to capital allocation and what the real cost of this bailout will be.

I would like to talk very briefly about the unemployment problem that would be produced by the bankruptcy of Chrysler.

In terms of the cost of the bailout, I think too much attention is given to focusing in on the fact that we pay $1.5 in loan guarantees if Chrysler can't pay those loans.

I think the real cost of the bailout is that we will be moving Chrysler from the bottom of the credit-worthiness ladder to the top through a Federal loan guarantee.

CAPITAL ALLOCATION

I think it is important to remember that our economy generates in any given year relatively fixed amounts of capital. We are not creating new capital by bailing out Chrysler. We are simply taking capital away from somebody else who is already higher on the credit list than Chrysler because the projects that they are trying to undertake are valued more by the American consumer, and therefore, the American investor than is this investment project which Chrysler proposes.

So what we are doing here is substituting political power and political clout in the allocation process for capital. We are substituting good political connections for good economic performance.

I think that is where the real cost is going to come.

The work we are doing is simply allocating capital to a segment of the economy that has not performed well. The plans that have thus far come forward from Chrysler don't convince the American investor that they can perform well.

It is important to remember that we are not operating in a vacuum. Other nations during this era have attempted to do the same thing with their auto producers, that we are trying to do here with Chrysler.

I would like to talk very briefly about the British experience with British-Leyland and Chrysler United Kingdom.

Six years ago, British-Leyland came to the Federal Government in Great Britain and basically said, "we have a problem. We are going broke. It is going to cause a lot of unemployment. We have a lot of secondary suppliers and if we go broke, it will produce great hardship."

And as a result, the British Government came up with a program to bail out Leyland by giving them $2 billion to modernize—$2 billion to make themselves competitive.

Six years later British-Leyland has lost one-half of the market it had at the time the initial bailout occurred. It has continued to go broke at an accelerated rate and Britain is faced again today with the request from British-Leyland for an additional $440 million to keep their doors open.

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UNITED KINGDOM-CHRYSLER HAD SIMILAR EXPERIENCE

United Kingdom-Chrysler has had a similar experience. Three years ago they were going broke. The parent company was not willing to put up capital that was needed to keep the door open.

So British Chrysler went to the United Kingdom Government in and said, "if we go broke, it is going to produce unemployment. It is going to produce ripple effects through our secondary suppliers. We want aid."

Senator RIEGLE. I wonder if the witness would entertain a question at that point?

The CHAIRMAN. Let's wait until we finish. We have the other witnesses. We could go on and on, Don. I think it is better if we follow the procedure all the way through. Otherwise, the hour is late.

We have other witnesses who are going to follow these, and I think that we just have to finish this, and then we will take the questions.

Senator RIEGLE. I hope the witneses will be prepared to stay so that we can do that.

Mr. GRAMM. Assuming I don't have a vote, I will be happy to stay, Mr. Chairman.

The United Kingdom responded to Chrysler with $329 million in aid. And since that aid was drafted 3 years ago, Chrysler has continued to lose market shares. It has continued to lose money.

The British Government is again today faced with a situation where it is trying to find a way to keep the door open.

When Britain nationalized the steel industry in Britain in 1967, it did so because it couldn't afford the unemployment. It couldn't afford the ripple effects.

Britain has pumped $6.1 billion into the steel industry, but has it reversed basic underlying economic impacts? The answer is no. Employment in the British steel industry declined from 257,000 in 1967 to 197,000 today.

What has happened? What is the lesson from the British experience? I think that number one, plowing money into companies that are going bankrupt has not solved their problems.

What it has done is allocated capital away from other industry in the British economy that could have created more jobs. It could have created permanent jobs, that could have created productive jobs.

Second, by pumping money into these companies to prop them up, the Government has eliminated the necessity of these firms themselves coming up with corrective action.

The Government of Britain has found itself, because of political constraints, unable to take actions that the market would dictate be taken. It has been unable to force cutbacks where they were dictated due to continuous losses in particular lines of production because political pressures on unemployment and political pressures to prevent plant closings were exactly the things that induced the government to get involved to begin with. Those are exactly the pressures that have kept the British Government from bringing pressure to bear where it could be effective.

Finally, let me discuss very briefly——

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The CHAIRMAN. Let me ask you, Mr. Gramm, I understand that there is a vote in the House. Is that right?

Then could I ask you if you could—I know it is a long way over, but if you could go over to the Capitol and vote and come back so we can finish your remarks? And then Senator Riegle can question you and so can the rest of us. And then we will go to Mr. Cheney, and then I hope that Mr. Hillis will be able to return also.

Thank you very much. I hope that you can get back also, sir, if you could.

[Complete statement of Congressman Gramm follows:]

STATEMENT OF CONGRESSMAN PHIL GRAMM

Mr. Chairman, I appreciate the opportunity to testify before this Committee on the proposal to grant Chrysler Corporation federal loan guarantees. I strongly urge you to reject this legislation. More importantly, I urge you to reject the very premise upon which it is founded. This nation cannot afford to accept the notion that the survival of an individual company, no matter how large, can justify violating the basic principles by which capital resources in our economy are allocated. The damage from a Chrysler bailout is not the $1.5 billion the Treasury might lose if the company's recovery plan fizzles. The real damage will be felt over the next decades in the form of lower national income and fewer new jobs as more and more of our limited capital is invested in businesses that have good political connections instead of good economic performance.

In my remarks today, I would like to suggest to the Committee a method of viewing the Chrysler situation that differs somewhat from that advanced by the bailout advocates. First and foremost, we must recognize that the Chrysler loan guarantee legislation will not create any new capital. All the legislation can do is move Chrysler from the bottom of the creditworthiness list to the top, right below the Treasury itself. But because we are dealing with a fixed amount of capital, this reordering of the list will necessarily mean that some other firm or firms will get knocked down a notch and off the bottom of the list. The problem is that by definition, these other firms must be more productive than Chrysler. If they weren't more attractive investments, Chrysler would have been ahead of them on the list, not behind.

The evidence from foreign governments' efforts to overrule the judgment of the private capital market shows just how difficult it is to overcome the powerful forces that cause one company to be a more attractive investment than another. Britain, in particular, has failed miserably in all its efforts to second-guess the allocation of capital by the marketplace. Its experience with both British Leyland and Chrysler U.K. points out how the very fact of government intervention can inhibit the long-term survival of a company by weakening the pressure for changes in management, planning, and strategy.

Six years ago, British Leyland found itself in a position similar to that of Chrysler today. It was unable to produce cars at prices competitive with those of more efficient producers, both within Britain and abroad. In order to eliminate its competitive disadvantage, which stemmed primarily from inefficient production facilities, a swollen work-force, and aging and unattractive vehicle designs, the newly-appointed government managers of the firm decided to launch a major investment program.

The private capital market looked at British Leyland's past and the likely prospects for its future and came to the same conclusion that it has come to about Chrysler today: the British Leyland recovery plan was not as good an investment as others that were available. But the British government decided to go ahead with the plan anyway, promising $2 billion worth of new investment in the company over five years.

Five years later, British Leyland's market share has dropped in half, it still makes no money, and it still requires massive infusions of government-provided capital to ensure its future. In fact, the company's managers have just asked the government to approve a new $440 million aid package designed to give the company "one last try" at returning to profitability.

Not long after the government started to support British Leyland, it was approached by the Chrysler management about possible support for Chrysler U.K. Again, the problem was the unavailability of private capital; the U.S. parent could not justify sinking additional capital into its inefficient and unsuccessful British

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subsidiary. But Chrysler suggested that with new capital from the government, it would be able to avoid liquidating Chrysler U.K. That recovery plan also failed miserably, as Chrysler U.K. continued to lose money and market share to increasingly tough competition from other foreign and domestic manufacturers. So three years and $329 million later, the British government found that it was dealing with essentially the same problem it had been dealing with before it became entwined with Chrysler U.K.: would the company's owners—now Peugeot-Citroen—keep its British plants operating?

The British experience with its nationalized steel industry has been similarly disappointing. Despite its evident inability to compete with the modern facilities of German and Japanese steelmakers, the British government pourod billions into its steel firms to preserve employment. Yet from the date of nationalization in 1967 until today, the industry has continued to succumb to competitive pressures. Steel industry employment has dropped from 257,000 to 197,000 despite continued infusions of government credit and a current indebtness of 2.9 billion pounds ($6.1 billion).

The difficulty with setting the government up as the banker of last resort for private firms is that the very reasons why a company such as Chrysler cannot attract capital are symptomatic of the need for a change in direction. The private capital markets will demand discipline in management and a change of strategy from firms that have not been succeeding in selling their products.

In the British experience, the reason why the government inevitably found itself being drawn deeper and deeper into the support of ailing firms was simple: because of political pressures, the government cannot demand the kind of strict discipline in management and product strategy that is called for when a company is not succeeding. Jobs have to be preserved and plants have to remain open because it was the existence of those jobs and those factories that was the very rationale for government assistance. By injecting the element of political approval into the subsequent operation of government-subsidized firms, we undermine their chances for success. That is the lesson we should have learned from the British, and it is evident how appropriate the analogy to the Chrysler case is.

As I indicated at the start of my remarks, the danger from the Chrysler bailout is the risk that we will begin to allocate capital on the basis of political factors instead of market performance. Bailout advocates never tire of replying that Chrysler and its suppliers employ hundreds of thousands of people. But simply inventorying current Chrysler-related employment provides a grossly exaggerated view of the short-term effect of a complete shutdown of its operations. So I would like to spend just a moment setting forth what I think is a more accurate description of what the employment effects would be if by supporting the principle of private allocation of capital we stand aside and watch Chrysler collapse.

We must recognize that the closing of Chrysler's doors will have little or no effect on the demand for new automobiles. Thus every car that would have been sold by Chrysler will probably end up being sold by someone else, either GM, Ford, AMC, or one of the foreign manufacturers. In the short-term, perhaps 60 to 70 percent of total Chrysler sales will be picked up by one of the other U.S. makers. This is because these sales represent vehicles in market segments in which there is little or no foreign presence, such as standard pick-up trucks, full-size cars, recreational vehicle chassis, and so on. The remaining Chrysler sales—principally compact and subcompacts—will be vulnerable to foreign displacement. But I think that there is one aspect of the situation that should not be overlooked: a Chrysler shutdown will free-up the 300,000 four-cylinder engines Volkswagen now supplies for the Chrysler small cars. The likelihood that Volkswagen would expand its U.S. production capacity to absorb these engines by producing additional Rabbits—which now compete with the Chrysler small cars—would seem quite high. If this does in fact take place, within the one to two years it would take for a transition, virtually all of Chrysler's current employment in manufacturing would have been absorbed within the domestic auto sector alone.

The rest of the jobs associated with Chrysler, such as the people who transport the finished vehicles and the dealer employees, are even better situated than the manufacturing employees. Even foreign manufacturers must make use of their services if they are to operate in this country. It is Americans who haul Toyotas from Baltimore harbor to dealers up and down the East coast, Americans who sell those cars after they arrive, and Americans who provide the maintenance.

In short, we cannot look at the Chrysler employment rolls today and determine what the unemployment consequences of a collapse would be even after a short period of time. Of course 100,000 or so people would be out of work on the day the company folded. But ours is a dynamic and constantly changing economy. Each year

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more than three million people take new jobs, some because their former employer closed, others because they are dissatisfied with their pay or working conditions, still others because they have gained experience that makes them more valuable to another employer. In looking at the effects of a Chrysler shutdown, we must consider how the Chrysler workers will fare in finding new jobs over a reasonable period of time. According to all the econometric studies that have been performed thus far, the effect on national unemployment rates of a Chrysler shutdown would virtually disappear after six to eight quarters.

What we are really talking about then is not the total loss of jobs, but a difficult and painful transition. The government may well have an appropriate role to play in easing the burden of that transition on the affected workers. The government has mounted similar efforts for specific companies, such as Penn Central, and for specific industries through the Trade Adjustment Assistance program. Even such large-scale single community problems as the Youngstown Steel closing, which affected that Ohio city more than a Chrysler shutdown would affect Detroit, have been resolved satisfactorily. Today the unemployment rate in Youngstown is lower than before the shutdown.

In closing, I want to stress the importance of the choice that the Congress will be making when it resolves the Chrysler case. At stake is the role the government will play henceforth in the marketplace. If government is to overrule the judgment of the private capital market through loan guarantees or other assistance to failing companies, we must be prepared to accept the consequences in the form of lower output and fewer new jobs. We must also face up to the fact that the private capital market is indirectly reflecting the wishes of the buying public. If Chrysler were producing the cars the American public wanted to buy at a price they were willing to pay, private investors would be beating down their doors. It is Chrysler's inability to meet the demands of the buying public that has gotten it in trouble.

If Chrysler can bring its production in line with the rigorous demands of market efficiency, the private capital market will fund its bailout. If Chrysler cannot or will not make such changes, federal aid will only delay and add to the cost to our economy of its ultimate demise while squandering our available capital and the taxpayers' money.

Mr. CHENEY. I have a prepared statement that I would like to submit for the record.

I will briefly summarize my testimony before I go vote, too.

I would like to begin by endorsing the comments of the gentleman from Texas, Mr. Gramm. I think his statement with respect to the problem is eloquent, especially with respect to the misallocation of capital.

I also approach the problem reluctantly because I understand the concerns of the gentleman from Michigan, the concerns of those who are worried about the employment impact, and the impact of a potential bankruptcy on the lives of a great many Americans.

But having given it a great deal of thought, it seems to me I have reviewed the testimony by this committee and House committees—it seems to me that there are serious questions in two general areas with respect to this particular issue.

First of all, I think that there is a serious question about the feasibility of the whole project in terms of whether or not a $1½ billion loan guarantee will even work.

DOUBTS VALIDITY OF CHRYSLER FORECAST

I would argue based on the testimony of Alan Greenspan, Marian Keller, and others before this committee, that there are serious doubts about the validity of the underlying economic assumptions of the Chrysler forecast of the possibility, for example, of Chrysler

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being able to increase their market share some 20 percent, from 10 to 12 percent of the market over the next few years.

I think the advocates of the proposal have an obligation to discuss the possibilities of what will occur in future years if we do, in fact, find ourselves once again before this committee discussing and debating the question of whether or not we ought to provide yet additional assistance to Chrysler.

I really wonder if we will have the courage if we do go forward with this proposal 1 or 2 years from now, when Chrysler comes back having not been successful in achieving an efficient operation, if we really will have the courage to cut them off and say that we simply are not going to provide any additional assistance.

It seems to me that the pressures will be greater than they are today to provide even more Federal help in order to safeguard the original investment.

Second, I think the point has been made briefly here today that Chrysler's problem is a symptom of a much larger problem in the society.

In recent weeks, the Congress has passed the Energy Mobilization Board to cut through the regulatory redtape to put energy projects on line. Now we find ourselves with one of the largest corporations in America in a situation where because of the redtape, because they are so bound up by regulations of various kinds, that allegedly, they find themselves unable to function efficiently.

Legislation has been introduced. I have cosponsored it. I know Senator Lugar from Indiana has cosponsored it, which would provide regulatory relief for Chrysler, would provide some easing of the fuel efficiency standards of the safety standards and air pollution requirements which they claim have contributed to the problem.

It is also my understanding that Mr. Iacocca has indicated now that that will not help, that they would rather have the money than the regulatory relief.

UAW WAGE SETTLEMENT BEYOND GUIDELINES

The point has been made that the UAW has gone forward with a settlement which, in the eyes of the President's chief inflation fighter, Mr. Kahn, is viewed as clearly inflationary, clearly over and beyond the guidelines established by the administration for wage settlements. And to some extent the American people have a legitimate right to question whether or not it makes sense for us to provide $1.5 billion loan guarantee over the course of the next 10 years, which in reality is involved as much as anything in subsidizing that wage increase.

It seems to me it would be perfectly proper for the employees of Chrysler to consider accepting a wage freeze rather than putting themselves in the position where the company has to come to us to ask for this kind of assistance.

There has been a lot of talk about whether or not we are establishing a precedent here, about whether a loan guarantee to Chrysler is new or just a continuation of the way we have done business in the past. While it is indeed true that Congress and the President have in the past provided assistance to all kinds of

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economic activity in this country, while we do have import quotas on various products, subsidies provided to agricultural producers, loan guarantees to promote housing and education, the basic fundamental fact is that Chrysler is one of the first where we in fact are getting into the business of providing direct financial assistance to a specific company to bail them out because of bad management practices on their own part.

It seems to me you do have to make a distinction between generic assistance that is aimed to protect an industry versus a situation in which we provide assistance to a company that is unable to make it on their own.

Finally, Mr. Chairman, I would like to suggest that one of the most frightening aspects of the whole proposal is that we now find ourselves, if we adopt the Chrysler proposition, the administration's proposal for loan guarantees to Chrysler, we really are opting as a matter of national policy for a situation in which we are locking in all the large corporations in America.

We are saying there will be a Chrysler forevermore, that all of the other bigger companies of a similar size or larger can look forward to their future with no fear of any risk, no fear of downside to any management decisions they might make or unwise investment decisions. We are opting for stagnation in the economy, because we are locking in the current economic structure, with the power of the Federal Government to preserve and protect that situation exactly as it is.

It seems to me our economy is based on the notion of fundamental change and progress and dynamism. That means new companies are formed and cease to exist every year. And for us to interfere in that process says that that period of time that we have enjoyed in recent decades in this country of continued economic progress when firms are formed and new products brought on line is over.

From this day forward, the American economy will look exactly like it does today, without any prospect for change in the future.

So I would hope, Mr. Chairman, that the Senate and the House will see fit in the end to turn down and deny the request that the administration has made for a bailout for Chrysler.

The CHAIRMAN. Thank you for an outstandingly fine statement. I am very impressed.

I have a number of questions for you, but you have to go to the vote in the House. If you come back, we will be grateful

[Complete statement of Congressman Cheney follows:]

STATEMENT OF CONGRESSMAN DICK CHENEY ON PROPOSALS FOR ECONOMIC ASSISTANCE TO CHRYSLER CORP.

Mr. Chairman, Members of the Committee, I am happy to be here today at your invitation to discuss proposals for economic assistance to the Chrysler Corporation.

As you know, the Committee has before it several proposals for economic assistance to Chrysler. The Administration proposal calls for the provision of $1.5 billion in loan guarantees to Chrysler if certain conditions, notably the requirement that Chrysler raise an additional $1.5 billion, are met. Another proposal, by Senator Riegle, calls for the formation of a government committee to provide loan guarantees in an amount specified by the Banking Committee; that proposal also requires Chrysler to set up a company funded $250,000,000 employee stock ownership plan. I oppose both of these proposals, and appreciate the opportunity to set forth my views on this issue for the Committee.

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Let me start by saying that your Committee faces a fundamental decision in reviewing these proposals. We do not need to discuss today whether $1.3 billion worth of aid would be better than $1.5 billion worth of aid, even though in other contexts that might be a critical issue. That is not the issue before us. The basic question we must address is: should the government get more heavily, indeed completely, involved in running the industrial economy?

Since the 1930's, the government has played an ever larger role in the economy. The New Deal, brought major advances in various forms of social insurance, such as unemployment compensation and social security, and substantial increases in assistance to certain sectors of the economy, such as agriculture. The New Deal did not, however, effect the complete takeover of the economy by government that some had advocated.

Today it is an accepted principle that the government plays a stabilizing role in the economy, that macroeconomic policy should attempt to support the economy, and that certain sectors, for social policy or national security reasons, or as a result of clear market failures, should be given assistance.

But the Chrysler aid proposals contemplate a significant departure from the past, a new precedent for government assistance. With the exception of the Lockheed package (which I believe was a mistake), this is the first time it is being suggested that we should move beyond the notion of providing "generic" assistance to an industry or category of economic activity to providing "specific" assistance to particular company.

It is an established fact of American politics that he who pays the piper calls the tune. The Administration has already imposed conditions on its request for assistance to Chrysler; it would be equally logical to place additional conditions, such as government equity ownership, additional worker representation, special hiring programs, or other forward-looking ideas on assistance to Chrysler. In fact, the imposition of conditions on this assistance makes Chrysler a ward of the government. So it is mistaken to say that we have here only an incremental step in the evolution of the "partnership" between government and business: we have the first major example of direct government assistance to a private consumer products corporation, a situation which will almost certainly be followed by heightened government control of this company, and perhaps of other equally fortunate companies.

Since these aid requests constitute a major departure from earlier traditions, we need to look more closely at the justification for such requests.

One possible justification for aid to Chrysler is Chrysler's size. Although this sounds absurd at first glance, who can doubt that Chrysler would have been laughed out of the hearing room if it was the size of a local hardware store? According to Chrysler's projections, the company will lose more money this year than my state will spend. I am hard pressed to know how failure on such a spectacular scale more readily qualifies a company for assistance, but since it is obvious that if Chrysler were small they would not be here, there must be something to the element of size. I think that, if anything, size should militate against assistance, since the adverse effects of assistance will be multiplied if assistance to industrial gaints become the order of the day. I am certain also that the Committee would not want to do anything to given credence to the widespread view that Big Business has more political clout than the rest of the public; yet one could draw such an inference from more favorable treatment of large enterprises.

A second possible argument in favor of assistance for Chrysler is the impact of a Chrysler failure on the competitive structure of the automobile industry. Some have argued that a Chrysler failure would mean increased market concentration, and that support for Chrysler would therefore be pro-competitive. The conclusions reached depend largely on speculation. In addition, this is a very shortsighted view of the matter. It is unclear who will get Chrysler's business if Chrysler fails. Certainly Chrysler, according to its last public financing prospectus, thought the United States automobile industry was "highly competitive." Thus, it is reasonable to expect that new business would not necessarily go to American industry giants, unless they were more efficient. Even if the business did go to major companies, the antitrust laws contain adequate provision for controlling any potential anticompetitive effects of such a result. The argument about competition is a smokescreen developed to support a company which just couldn't compete in the private marketplace and which has now turned to the political marketplace for help instead. It is reasonable to expect that assistance to Chrysler will be anticompetitive, since such assistance will help keep alive a company which, by its own admission, would fail in the absence of such assistance. Failure is exactly what the market system should have in store for those who cannot meet the demands of the marketplace, and if

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we're going to help these who fail in the market we ought to have the honesty to admit that we're abandoning the private marketplace once and for all.

We need to pay close attention to the consequences of abandoning the marketplace. First, it is not the case, as is often asserted, that loan guarantees for Chrysler are a costless means of assistance since they will eventually be paid back. The fact of the matter is that everyone who does not have access to preferential treatment in effect picks up part of the tab for such assistance, by paying higher rates for credit or by facing a credit shortage or by facing inflation. The supply of capital in this society is not as large as it should be, and we need to think twice before pushing a loser to the head of the credit line.

Second, by allocating preferential credit to Chrysler, we are perpetuating a misuse of national resources. The reason Chrysler is losing money is that it is misallocating resources and consumers are no longer willing to help it do that. Is it reasonable to believe that the government has some superior wisdom which will allow it to judge Chrysler's use of resources sound when millions of automobile consumers have judged it unsound?

Third, can we as a nation afford to shift from the private marketplace to a public marketplace?—that is can we afford to have literally thousands of corporations lined up outside the doors of agencies and Congressional offices waiting for political support for their latest economic project? I would be willing to aruge that in such a situation the rich and influential, the established groups often called Big Business and Big Labor, will continue to be rich and influential while those with a better idea, and little else, will remain poverty-stricken since they will have been foreclosed by the political system from any real opportunity to complete.

Perhaps the hardest argument to meet, in view of what I've said, is the argument that it's really the government's fault. The implicit promise of this argument is that the government is already running the economy, that it has erred badly, and that Chrysler has suffered as a result and should now be extricated from its predicament. A corollary to such an argument is that it would be cheaper for the government to bail out Chrysler than it would be for the government to make an alternative, obligatory, investment in supporting Chrysler workers after a Chrysler failure.

There's a lot of truth to the argument that government regulations are making life hard for Chrysler and other companies, and even to the argument that such regulations have a disproportionate impact on Chrysler. By now it is an accepted fact that government regulations are costing American business billions of dollars per year. Earlier this year, the Business Roundtable published a study which showed that government regulations of only six Federal agencies had increased the cost of doing business some $2.6 billion for forty-eight companies, of which some 80 percent of the total was incurred by manufacturing companies. The study noted that among the largest burdens were costs; imposed by the motor vehicle emission standards. Just recently, the Environmental Protection Agency published a study showing that its Clean Air and Clean Water regulations only will cost businesses some $360 billion between 1977 and 1986. It seems obvious that such substantial increases in the cost of doing business, if they are not spread evenly across an industry, or between American and foreign companies, could cause major competitive problems. The Congress needs to take a second look at most if not all of the social and environmental regulatory legislation of the last decade, and, in the cold hard light of the day, to ask itself whether the costs imposed are, in fact, reasonable in light of the benefits. I believe a case can be made that much of the legislation is beneficial, but it may need to be changed to include some of our information about its costs.

This is certainly true in the case of Chrysler. There is no question in my mind but that Chrysler's costs have been increased by the requirement that it bunch together its capital spending and include unnecessary safety equipment while meeting unreasonably stringent environmental standards for its automobile production. In fact, I think this is true for the entire automobile industry and that's why I support H.R. 5413, sponsored by Representative Dave Stockman, which would: (1) allow the mileage standards to be met on a more even time-table, thus smoothing out capital requirements for Chrysler and the other companies; (2) eliminate the need for airbags, which would considerably lower the cost of the product; and (3) freeze the emissions requirements at 1979 levels on the basis that these standards are stringent enough to protect the public health while drastically reducing capital investment.

This legislation might not solve all of the industry's problems, but it should have been enacted long ago, and it is the type of approach we need to bring to our dealings with new social and environmental regulations. Government can inadvertently kill off an industry, and it certainly has not helped the automobile industry.

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Chrysler needs regulatory relief, and it should get it. The people from Chrysler may argue that they need more than that, but they do not deserve it.

One final argument in support of Chrysler is that this is a one-shot deal, necessitated only by a conjunction of unfortunate events which spelled an unusually bad year for the automobile industry. Although this is a comforting thought, the information we have suggests that this is unlikely. First, the general experience of the Federal government with "bail-outs" has been that they have been consistently more expensive than the Congress was initially told they would be. According to the recent testimony of Professor Vern Countryman of Harvard Law School before this Committee:

"In 1970, under the Rail Passenger Service Act, the Federal Government made interim loans and guarantees of $200 million to assist railroads in joining an operation now known as Amtrak.

"By 1978, Federal expenditures for that bail-out operation were $578 million and the end is probably not in sight.

"In 1970, also, under the Emergency Rail Service Act, the Federal government guaranteed $125 million of credits for the Penn Central Railroad and other northeastern railroads then in Reorganization under the Bankruptcy Act.

"In that operation, the federal government may end up bailing itself out with its own funds through additional investments in Conrail running into billions of dollars.

"In 1971 . . . in the Emergency Guarantee Loans Act, the government guaranteed up to $250 million in loans to the Lockheed Corporation.

"On that one, the government apparently has been able to bail itself out . . . by subsequent awards of defense contracts to Lockheed.

"That source of federal bailout will hardly be available in the case of Chrysler, whose defense contracts account for less than 5 per cent of its total dollar sales."

Additionally, Chrysler's last public financing prospectus indicated that it would need to raise $7.5 billion between 1978 and 1983. It is unclear how this squares with the Treasury Department's request for Chrysler, but it certainly raises the possibility that the Treasury has asked for as much as it thought it could get now on the theory that it would be safe to come to the well later once the Federal government was on the hook. According to Barrons, "How (Chrysler) can return to profitability or so much less remains to be seen."

The fact is that Chrysler has been poorly managed for some time. While I will not recite for you the litany of management failure at Chrysler, I will observe that such failure appears to be established by the fact that even if we eliminate the Chrysler capital spending program, Chrysler will still lose massive amounts of money this year. I have given all of the major arguments in favor of saving Chrysler, and I cannot see one of them that really bears close scrutiny. The fact is that helping Chrysler will be a virtually unprecedented action which will create the most unfortunate future problems for our country, and I hope that you will decline the invitation tenderod by Chrysler's management, and the UAW, to have the taxpayers support their future efforts.

Thank you.

The CHAIRMAN. We will stand in recess. We are expecting Senator Javits to come momentarily. We are hoping he will be able to come.

We are also, of course, expecting the House witnesses to come back after they vote.

[Recess.]

The CHAIRMAN. The committee will come to order.

I am very grateful to the House Members for coming back. I realize it is a long trip. We are imposing on your patience.

Senator Javits will take 5 minutes. He has a special presentation that is a little aside and apart from what we have been hearing so far. Senator Javits, go right ahead.

STATEMENT OF JACOB K. JAVITS, U.S. SENATOR FROM THE STATE OF NEW YORK

Senator JAVITS. Mr. Chairman, first, to state my premises, let me just say that what I consider to be the proper criteria for helping

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Chrysler, and we don't know yet—I don't, the committee doesn't—whether these criteria are justified in the Chrysler case.

My criteria would be that it depends not on the Chrysler interest, but the national interest, and that is subsumed in two propositions: One, is continuance of Chrysler assistance essential to ensure competition; and second, is assistance necessary to prevent seriously adverse effects on the economy of the Nation, particularly that part of it which relates to employment.

Other considerations are: can you get your money back, and what is everybody else doing, its creditors, employees, stockholders, et cetera. So those are the criteria from which I would judge for myself. I thought I would lay those before the committee.

PLANT LEVEL LABOR-MANAGEMENT COMMITTEES

Now, my particular purpose in testifying is that I strongly urge the committee, on any plan it may send to the floor, to crank in a provision for labor-management committees at the plant level as far as Chrysler is concerned. What this company needs is a big dose of the improvement of its situation. In order to bring that about, these committees will be supremely important.

Now, what do these committees do? These committees at the plant level, with probably an umbrella committee for the whole Chrysler enterprise, are designed to handle matters which are outside the collective bargaining process, that is, wages, hours, and fringe benefits, and conditions of employment. The specificity involves the range of matters from car pools, safety, drug abuse, absenteeism due to alcoholism, and energy conservation, to recreation, what share in the plant decisions workers ought to have, and the general quality of their working life.

This is a World War II technique. There were, I think, some 5,000 such committees in World War II under the aegis of the War Production Board. It is the most valuable single thing which you can do with any enterprise in order to buck it up and give it a new sense of morale, new sense of interest on the ground of productivity as the big play of American business. That is just as true of Chrysler as any other.

The analogy is this, and I will leave you the details. We have tried this in New York. It is being tried in many other places, perhaps even in your own States. I don't have the list in front of me.

Labor-management committees in New York were first installed in Jamestown, N.Y., where the whole labor climate was turned around, so that from being one of the worst labor cities in the State it became one of the best. And it now has an unusually attractive low unemployment rate. This is only about 5 years. Indeed, it elected the mayor who put this system in with my cooperation, who is a Democrat, by the way, to Congress.

Now, the Buffalo experience is the best. Buffalo has an area-wide labor-management committee, which in your case would equate with the Chrysler labor-management committee. Subsumed under that are 38 plant committees, various types within the plant, which are now operating with extreme effectiveness.

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You will see in the history of this enterprise a detailed list of 23 different activities which is sponsored by the labor-management committees.

And one last point. That is, that was one of the worst labor areas in the State and now it is one of the best.

FINANCIAL SUPPORT FROM LOCAL GOVERNMENT

Their whole experience proved one thing: Labor-management committees should not depend for their financial support either on management or labor, but they depend upon government. Now they get their money from the city of Buffalo and the county of Erie, and they find that to be the best funding. And that tracks a bill which we have passed here at my behest and Lundine's, the very mayor that became a Congressman, that provided for such labor-management committees.

And I have had a terrible time getting it funded. The reason I have had a terrible time getting it funded is two fears which, once you order it, are not present in Chrysler: One fear of management, that labor will know too much about its figures; it will seek a part in management decisions, and so on; "better keep them out, they might get too big for their britches," they say.

And the fear on the part of the labor leaders that somehow or other it will preempt their importance to the working people.

Now, in Buffalo they simply rode over that and now it is working fantastically well. And by the way, all of the unions are involved in Buffalo, and there is now a national organization of labor-management committees, which has some 48 components. So the movement is gaining steam.

But here in the Chrysler thing, where you can write the terms, it is my urgent recommendation that this experience be studied. I don't think it even would be wrong if you thought well enough of it to send somebody up there and look at it.

It is run by the UAW's labor chief up there, George Wessel, and by one of the leading businessmen, a man named Dan Roblin. It is really a fantastic idea.

I hope very much that you will give it consideration to be cranked into what you provide.

The CHAIRMAN. Senator Javits, I want to—we don't want to delay Congressman Hillis and Congressman Brodhead, who very graciously returned. Could you, Senator Javits, stand by while Congressman Hillis finishes his statement? Congressman Brodhead has already given his. Can you do that? We may have some questions for you.

Senator JAVITS. I'm sorry. I would love to, Senator. But I am loaded, too. I just can't sit around. I will come back as soon as I can work out my calendar schedule.

But I think——

The CHAIRMAN. I think you made a fine presentation. I think we can go ahead with Congressman Hillis.

Mr. HILLIS. I would be happy to yield.

Senator JAVITS. Could you yield me another 3 minutes?

Let me give you in one word what the Buffalo committee does: Communication of business and operation progress and problems;

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planning for the introduction of new machinery; defining and publicizing quality problems; improving quality of workmanship; and reducing waste; training for new hires; using production time and facilities most effectively; reducing equipment breakdown and delays in repairs; skill training for employees and supervisors; organizing car pools; redesigning the jobs in specific departments; so on and so forth.

There are some 24 specifications. Take one like this: Reducing unnecessary overtime. Think of that for a labor-management enterprise.

I ask unanimous consent that this specific list may be made part of my testimony.

The CHAIRMAN. So ordered.

[Documents received for the record from Senator Javits follow:]

STATEMENT OF SENATOR JAVITS

INTRODUCTION

I am pleased to join with my colleagues, the distinguished majority leader, Senator Byrd, and the Chairman of the Finance Committee, Senator Long, to appear today before the Banking Committee to testify on the question of Federal loan guarantees for the Chrysler Corporation.

I commend this committee for its prompt action in scheduling these hearings on legislation to provide Federal assistance to keep the Chrysler Corporation from collapse in the face of the enormous financial losses it is experiencing this year.

I believe that at the present time the proposition of Federal loan guarantees for the Chrysler Corporation, as put forward by the Administration, is very much an open question. A majority of the Senate probably remains undecided about it; and we will be placing great weight upon the recommendations of the Banking Committee in respect of this matter.

I include myself among the "undecided" at this point and wish to put before this Committee what, in my judgment, are the principal criteria that need to be considered by the Senate. My purpose in being here today is to give the Committe an idea of my own thinking on the Chrysler situation and to describe what I believe to be a key ingredient in securing Chrysler's future viability.

CRITERIA FOR DECISION

I approach the question of loan guarantees for Chrysler Corporation with a troubled conscience. It is a sorry day when our country's tenth ranked industrial enterprise must ask for substantial federal financial assistance in order to stay afloat.

I share the administration's concern and belief that the idea of federal financial assistance to a private corporation must be approached with great caution. A fundamental axiom of our system is that, in the normal course, business enterprises stand or fall on their ability to generate capital in the private markets—and that is as it should be. It is likewise fundamental that in the normal course, the private entrepreneur—who has the right to reap the rewards of his successful efforts in this regard—must be prepared to accept the consequences of his failures also. Those are the rules of the game and, for the most part they work effectively to endure the efficient allocation of capitol, labor and productive facilities.

But should we—is it prudent and in the national interest—in every case to allow failing companies to go belly up and down the drain? Is the principle of nonintervention one that should guide us in what we do in the Senate or are we to be slaves to it? We were sent here by our constituents to use our heads, in this and other matters, and we must judge whether in this particular instance it is in the national interest to try to save Chrysler. The precedents, of course, are there—the government has rescued companies ever since the depression, when the Reconstruction Finance Corporation was created to renew bankrupt and failing businesses. It has been argued that such intervention suggests a fundamental change in the character of the free enterprise system that threatens to open the flood gates to large-scale federal bail-outs of inefficient companies, and that it sends out an unhealthy signal to our small business entrepreneurs, our risk takers, our truly innovative companies who enter the market fully assuming the risk of making it or breaking it, with no

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expectation of rescue if they are on the brink. In short, we must review carefully any request for Federal intervention in the private business sector.

While I have not yet made up my mind on the Federal loan guarantee proposition, I would like to lay out what I believe are the principal criteria that will need to be satisfied in order for the Senate to sustain the propositon of federal loan guarantees for Chrysler Corporation. And I shall pay strict attention to the recommendations of the Banking Committee as they bear upon the criteria I shall now set forth.

First, any effort by the Federal Government to help deal with Chrysler's financial plight must be based strictly on the national interest, which must be carefully defined and supervised. The national interest is determined by (1) whether the continuation of the Chrysler Corporation is essential to assure competition in the automobile industry; and (2) whether that assistance is necessary to prevent serious adverse effects on the economy of the nation, particularly the effects on employment.

Second, the Banking Committee must advise the Senate about both the prospects for repayment of any guaranteed loans and the outlook for Chrysler's eventual return to profitability. And third, the Committee must take care to insure that the financial investment of the U.S. government—whatever its form—is full protected, in the event that a bankruptcy occurs despite that we may do. Finally, the Committee must satisfy itself and the Senate that all parties which stand to gain from a rescue operation—workers, creditors, stockholders, and so forth, carry their fair share of the total burden of providing this financial commitment to the Chrysler Corporation.

I find that one of the most persuasive arguments in favor of loan guarantees for Chrysler Corporation is the potential that a default of a bankruptcy by our nation's 3rd largest automobile concern could bring in the context of a deepening recession. Let us not forget that the failure of a single Austrian bank—the Credit Anstalt—precipitated a worldwide financial collapse in the twenties. It is estimated that a Chrysler collapse could lower real economic growth by 0.5 to 1 percent for the year and could reduce employment by 175,000 jobs over the next two years. The large income losses from laid-off workers would cut into consumption and some of Chrysler's market share would likely be lost to imports.

The Treasury, in endorsing the Chrysler aid proposal, argues that an alternative to Federal aid program appears to be reorganization under the bankruptcy laws and predicts disastrous results. It argues that a Chrysler Bankruptcy could cost the Federal government more than $1.5 billion in 1980 and 1981 alone. The Department further estimates the Federal cost for those years at a total of at least $3 billion—an amount that includes loss of revenues, unemployment claims, welfare costs and other incidential costs. Furthermore, there would be a substantial cost to the state and local governments and this figure does not take into account any cost to the Pension Benefit Guarantee Corporation on Chrysler's unfunded pension liabilities estimated at $1.1 billion, which would ultimately be borne by other insured plans. Also, because the majority of Chrysler plants are located in older, already distressed cities, in Michigan, Ohio, Pennsylvania, Illinois, Indiana and Missouri, bankruptcy could have particularly devastating regional consequences. The Committee has heard from the Administration and now must look at the case and reach its own conclusion.

THE ECONOMIC CONTEXT

In my view, Chrysler Corporation's financial difficulties are but a symptom of the growing pervasiveness of the structural weakening of our economy. In this connection, Mr. Chairman, I would draw the attention of my colleagues to an article by Brock Adams which appeared in the Washington Post on September 9, 1979, in which he urged us to resist the temptation to dismiss Chrysler's problems with a quick financial fix, and instead to use it as an opportunity to begin defining a new economic strategy for the 1980's. As he stated then, Chrysler's problems are not unique; they are generic: an aging plant, the absence of technological creativity and a shrinking market. He states:

"For while Chrysler's problems are unique in some respects, they are also common to a whole range of "maturing" American industries that will march on Washington for financial relief, the bonus army of the 1980's. Chrysler is merely the advance guard. In fact, the entire transportation sector, about one-fifth of our gross national product, is in deep trouble."

I believe our country has slipped almost unknowingly into a new era characterized by sustained economic stagnation—which is at the heart of all our present economic difficulties: the near absence of productivity growth; galloping price infla-

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tion; the dollar decline; impending economic recession; and, most importantly, obsolescent public and private capital infrastructure. On this latter point, Mr. Chairman and members of the Committee, I wish to emphasize the fact that a significant portion of U.S. productive capacity—in steel, railroads, automobiles, etc.—and of our public capital—streets, bridges, water supply systems, etc.—is now obsolete or soon will be. The deterioration of this infrastructure is an effect, Mr. Chairman, of years of neglect of our industruial plants, our machinery and our cities and now we are beginning to see the consequences of that neglect.

I suspect that we may be facing an infrastructure problem in U.S. manufacturing industry similar to the one evidenced in the decline of our older cities. And we may require new mechanisms for dealing with our ailing corporations. We should begin to think about new policies aimed at the reindustrialization of our economy. We have neglected our industrial base and deferred maintenance and replacement expenditures and we must refurbish our factories, invest in new plant and equipment and once again produce the kind of quality goods that can compete in domestic and international markets.

We may have to undertake a fundamental restructuring of our economy: to promote incentives for investment, for savings, and for greater productivity. It is only in this type of climate that the engines of the free enterprise system can continue to operate productively and competitively. If we fail to galvanize our resources and tailor our strategies now so as to achieve the maximum efficiency from our economy in the coming years, we risk a lower standard of living at home and becoming increasingly vulnerable to adverse competitive pressures abroad.

Failure to address these conditions threatens our future economic progress, weakens our ability to achieve the goal of full employment, makes it more and more difficult for families to maintain their standard of living and retard the integration of youth, minority members and women into the work force. They prejudice true equal employment opportunity, reduce the resources available to make workplace environments safer and healthier, and stifle the development of innovative approaches to the more fulfilling productive use of our human resources—the working men and women whose interest should be the highest responsibility of both labor and management.

LABOR-MANAGEMENT COMMITTEES—A PROPOSAL

Now in the time that I have remaining, Mr. Chairman, I wish to make a suggestion, and at this point it is only that, in respect to the organization of the production arrangement at Chrysler Corporation pursuant to the implementation of any financial assistance package. I believe that part and parcel of any package we ought to make it possible—and I choose these words advisedly—for labor and management, at the plant level—indeed at the shop floor level—to collaborate in the consideration of many non-collective bargaining, work-related matters: safety; absenteeism; health; energy conservation; recreation and family life; alcoholism and drug abuse rehabilitation on the job; the organization of production in the plant and the whole quality of working life.

Of course, collective bargaining arrangements will be factored into whatever will be expected of those who have a stake in Chrysler's future—including wage concessions, and COWPS Chairman Kahn has been heard on that subject and the Committee will have to make up its own mind on it. But I am focusing upon the non-collective bargaining arena now, and recommend that the Committee make some provision for making it possible for workers and management at the plant level to have a continuing opportunity for dialogue on the whole host of labor relations matters that will be so critical to the ultimate resolution of the Chrysler difficulties, including worker productivity.

More specifically, Mr. Chairman, I am referring to the need to make provision for a program to encourage establishment of plant level labor-management cooperative committeees at the Chrysler Corporation. These committees could do much to stabilize the labor relations climate at Chrysler and improve worker morale in the coming years of crisis, particularly in giving Chrysler workers the opportunity to participate collaboratively with management in the making of decisions affecting their jobs.

I believe that Labor/Management Committees, properly constituted on the basis of equality, are a key ingredient that has been missing from much that has been tried and under the various banners of "job enrichment", humanizing the work place" and the like. Through these committees traditionally non-collective bargaining issues can be dealt with more effectively and innovative approaches aimed at improving the production environment can be considered without threatening the job security of affected workers. An underlying premise of these committees is that

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there is a fundamental distinction between managing the work place as it affects workers' jobs and managing the business enterprise itself.

Chrysler's work force, in cooperation within an enlightened management effort, has more potential for determining this Company's future than all the financial institutions combined. In this legislation the Federal government has an opportunity, which it should not miss, to assist both labor and management in finding new forms of cooperation so that the productive capacities or workers are fully utilized. Our underutilization of the skills, talents, enthusiasm, and ingenuity of working men and women probably constitutes a greater waste of U.S. resources than our misuse of energy from fossil fuels.

Labor-Management Committees, as a major supplement to the traditional collective bargaining process, have already demonstrated their effectiveness as a sound and workable framework for labor-management cooperation. They can operate in many forms: national, industry-wide, on an area-wide basis, and at the plant level. Labor-Management Committees are not merely a theory or a thesis. We have substantial operating experience in the automobile industry itself which attests to the success of these committees in practice.

An important case in point is the experience of the employees and managers at the large General Motors plant in Tarrytown, New York.

Six years ago the United Auto Workers and General Motors, for the first time in any major collective bargaining agreement, included a top level mechanism for improving the quality of working life. At that time, the old Tarrytown plant was seriously threatened by the efficiency and high cost, excessive absenteeism and job turnover, and thousands of grievances reflecting the deep mistrust between labor and management. The turnaround began when the decision was made to involve the workers themselves in the process of reorganizing the assembly operation. A third party was brought in as a professional consultant to both the UAW and management to set up a new process for solving mutual problems. Over a two-year period, and many ups and downs, more and more workers became involved and eventually the quality of worklife program became established on a plant-wide basis involving nearly 4,000 workers and supervisors. The result so far has been to demonstrate that workers can have a great deal to contribute to the production process, that their working lives can be made far more meaningful, that a negative labor-relations climate can be turned around, and that impressive production improvements can result from this process. I ask unanimous consent that the Harvard Business Review article describing the Tarrytown experience be made a part of the record of the hearing.

Mr. Chairman, I should like also to have placed in the hearing record the November 1979 report of the Buffalo-Erie County Labor-Management Committee, which details the specific activities of this pathfinding entity in improving the labor relations climate in New York. Specifically, the LMC's activities include communication of business and operation progress and problems; planning for the introduction of new machinery; training for new hires; reducing equipment breakdown; organizing car pools; reducing absenteeism and tardiness; developing alcohol and drug rehabilitation programs; conserving energy; and improving security, safety and health.

Real changes are not going to occur overnight. This is not a gimmick. It involves a willingness to innovate, to take risks, and to overcome uncertainties inherent in altering the established order. It also cannot be imposed by some rigid, theoretical formula. The beginnings will almost always have to be on a small scale with labor and management constantly seeking to adapt their approach in order to achieve pragramatic solutions. That the Chrysler losses are going to bring about the first seat for a labor leader on a U.S. board of directors is evident that even the long-standing sharp division between labor and traditional management decisions may be changing in the future. In the meantime, the parties themselves can find much to accomplish in managing the job without having to be concerned about managing the enterprise.

My advocacy of labor-management committees, both generally and in the specific case of the ailing Chrysler Corporation, stems from my firm belief that it is the most promising means of overcoming the often excessive rigid and adversary nature of traditional collective bargaining and of giving new meaning to industrial democracy. The essence of the phrase "quality of working life" is in finding the means of bringing about far greater involvement and participation for workers in their jobs. This is partly a matter of emerging new values among workers, partly a matter of significant increases in levels of educational attainment and training, and partly a matter of greater expectations of the institutions which affect their working lives. The quality of working life, and with it a major benefit in productivity improve-

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ment, can come about through labor-management committees, particularly at the local plant level.

The beginnings are likely to be difficult, often requiring the parties to overcome years of conflict and lack of mutual trust, and the desire of workers themselves to take part. The first steps may be modest, such as organizing car pools or forming an alcoholism program, but the basic objective is more ambitious. It is to bring new meaning to industrial democracy through which each worker is enabled to participate in the decisions affecting the quality of his or her working life. Repetitive and unchallenging jobs can and have been transformed through the commitment of labor and management to afford workers themselves greater participation in the way the production process is designed. We know when workers have more to say about their jobs that not only is their own job satisfaction likely to increase dramatically but we also find enormous corollary benefits in reduced grievances, lower job turnover and absenteeism, improved quality control and higher productivity.

Once labor and management agree to seek a new forum for greater cooperation, they find that a far greater community of interest exists between workers and management than they previously realized and that they then have a means of finding mutually beneficial solutions to common problems.

In fact, it is exactly in situations involving extreme economic distress that the success of labor-management committees in accomplishing a major turnaround have been most noted.

The precedent for Federal assistance in forming and operating labor-management committees has actually already been established. This is the Labor-Management Cooperation Act of 1978, of which I take great pride in being the author and in steering through the Labor and Human Resources Committee and the Senate with unanimous support. I have appended the text of this statute to my prepared statement today. In brief, the Act authorizes the Federal Mediation and Conciliation Service (FMCS), as a major adjunct to its preventive mediation work, to assist in the establishment and operation of labor-management committees on an entirely voluntary basis. One of the important lessons we have learned is that successful labor-management committees cannot be imposed; they must eminate from the desire and commitment of the parties themselves. It is often critical, however, that the concepts and opportunities be presented by neutral experts and that small grants of financial assistance be available. That is precisely what the FMCS is authorized and directed to carry-out.

Accordingly, I will propose an amendment to the Chrysler loan guarantee legislation to authorize the Service to assist Chrysler management and the labor organizations representing its workers to assist in the formation and operation of the labor-management committees on a voluntary basis. Modest funding for FMCS to carry-out this responsibility will be required, and I feel it is appropriate that a small portion of the loan guarantee fees be allocated for the Service in this regard.

I appreciate having this opportunity to present my views on the Chrysler legislation, and to explain the need to broaden the Senate's inquiry to encompass the concept of labor-management committees in this context. This legislation presents an opportunity to demonstrate the enormous value of involving the workers themselves, in cooperation with management, in the process of rescuing this business enterprise and to lead the way for others to follow.

The Areawide Labor-Management Committee: The Buffalo Experience

(Prepared by Robert W. Ahern, Executive Director, Buffalo-Erie County Labor-Management Council, November 1979)

INTRODUCTION

An area labor-management committee is a cooperative effort by the top level labor and management leaders in a particular area to improve the labor relations climate and economic health of their community. Since the early seventies such efforts have developed in almost thirty communities throughout the United States ranging in size from Jamestown, New York and Clinton County, Pennsylvania to large cities such as Buffalo, Pittsburgh and St. Louis. Recently, the Congress added as an amendment to the CETA Act a directive to the Federal Mediation and Conciliation Service to aid present area LMCs and to support other communities which want to establish such efforts.

Area LMCs are unique to the United States and are yet another example of how American labor and management have creatively addressed economic problems. Cooperation on an area-wide basis to improve the economic health of a certain area

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is very much in line with the history of labor relations in this country. American labor leaders have always strongly supported capitalistic system and worked cooperatively with management to assure the economic health of the individual enterprise. The logic of the larger the profit, the greater the possible distribution to labor is clearly understood and approved by both parties. The logic of the area wide LMC centers on jobs. If the manufacturing base of the area is stable or growing the net economic flow from jobs and taxes is positive and healthy. However, if the manufacturing base is shrinking as it has been in the areas mentioned above, the outflow of jobs and the shrinking tax base present severe problems for everyone in the community. The name of the game is jobs. The basic business of the area wide LMC is to retain and create jobs.

As the concept has developed area-wide LMCs have found they can improve the labor relations climate and economic health of their communities in several ways:

1. Acting as a catalyst and consultant to the parties to improve individual collective bargaining relationships, generally through the plant or industry level labor management committees.
2. Acting behind-the-scenes to help end long term strikes especially those involving possible plant closures or relocations.
3. Acting as a catalyst and an organizer to bring together labor, management and government to attack specific economic development issues and problems.
4. Developing a network of close contacts with top labor and management leaders both within the area and throughout the United States. Such a network permits the area LMC to assist economic development agencies in plant retention, expansion and recruitment efforts.
5. Being available to industrial recruiters and prospective employers to explain and to explore labor relations realities in the area.
6. Acting as a catalyst to define private sector manpower needs, identifying training sources to meet those needs and finding public sector resources to fund them.
7. Directing specific cooperative efforts to meet emergency manpower problems such as the shutdown of a plant or substantial part thereof.
8. Encouraging a heightened awareness of labor-management cooperation through sponsoring seminars and training programs.
9. Assisting public sector employers and unions in developing cooperative labor-management efforts.

The range of the possible ways in which an area LMC can serve a community has steadily increased as the state-of-the-art has grown. It is anticipated that this functional growth will continue as experience grows, especially in larger cities.

This paper will tell the story of one area LMC; the Buffalo-Erie County Labor-Management Council. This is not to suggest that this story is in any way a prescription for another community. The state-of-the-art is just too crude for any procedural manual to be written. The story is offered only to expand understanding of the area LMC concept.

I. HISTORY

In 1975, Buffalo reached the bottom. Between 1970 and 1975 30,000 manufacturing jobs, twenty percent of the total, had been lost. Unemployment was approaching 11 percent. The City teetered on the brink of bankruptcy. The Country was hurrying toward its own severe financial problems which would result in a crisis a year and a half later. Buffalo ranked among the top three cities in the nation in working time lost due to strikes in 1970, 1971, 1972, and 1975. Construction had virtually ground to a halt. The downtown was dotted with patches of blight. The once thriving port was moribund. It was the worst of times.

It was in the face of these conditions that labor and management leaders reached out to each other to determine what had to be done to reverse the situation. At a series of quiet and private meetings a small group chosen by George L. Wessel, President of the Buffalo AFL–CIO Council, and Daniel A. Roblin, Jr., President of Roblin Industries, discussed the problem with the Congressional delegation, the County Executive, and the Mayor of Buffalo. From these meetings emerged two clear problems which could be handled relatively quickly by joint union-management effort. First, the various economic development agencies, which had been factionalized and warring bureaucracies, could be brought together under one coordinating agency headed by labor, management and local government. Second, the area's labor relations climate could be improved. This would be necessary to reverse the City's longstanding image of being a "bad labor town".

In the early seventies a small city about seventy miles south of Buffalo, Jamestown, New York, had developed an area-wide labor managment committee which by

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1975 had made major strides in reversing that city's poor reputation in labor relations. There had been community wide efforts in other cities such as South Bend and Toledo, but Jamestown was the first to involve itself in day-to-day labor relations on a plant by plant basis. Naturally, Buffalo leaders looked to this successful efforts as a model.

However, the problems of scaling up the model to fit an area the size of the Buffalo area appeared formidable. Indeed, the wisdon prevailing at the time, even among some of the people working in a large city. The argument was that the success of Jamestown rested on the following unique set of factors:

(1) The small size of the area (40,000).
(2) A well developed sense of community.
(3) A strong, charismatic mayor who furthered the sense of community.
(4) The concentration of manufacturing in a few industries.
(5) Small plants, many without professional industrial relations staff.

In the case of Buffalo:

(1) The area had a 1,400,000 population.
(2) There was no comprehensive sense of community—rather, there were a large number of "communities" suburbs, a large county government sitting in the middle of a large city government, a severe inner city problem, etc.
(3) A Democratic Mayor and city administration; a Republican County Executive, with the Democrats controlling the County Legislature.
(4) Buffalo has a wide mix of industries.
(5) Buffalo has a wide range of plant size and most plants above 200 employees have one or more industrial relations professionals.

Despite these differing factors and the pessimism raised, the Coucil was formed and began its operations on February 12, 1976. The membership of the Council, which contains the leaders of all the major unions and a strong cross-section of management leaders is presented as Appendix I. The Council through its management and union leaders represents more than 200,000 salaried and hourly workers.

The Council, early on, made several decisions which proved to be significant. First, it decided to make the Council purely a private sector organization. Political leaders and public sector administrators were not included mainly because it was feared the Council might become another political football to be kicked around in the Buffalo community. However, all the political leaders were involved in the planning for the Council and were and continue to be among its strong supporters.

Second, although the County, the City or the Chamber of Commerce could have provided office space, the Council was housed first with the overall economic development agency and now has its own office. The Council felt that if it were housed in government it would inevitably be perceived as a governmental agency. If it were in with the Chamber, it would be viewed as a management operation. The independent identity of the Council has been one of the keys to its success.

Third, the Council decided to keep a low profile. There were several reasons; many prior organizations had been launched flying the banner of "Save Buffalo" only to fade out six months later leaving the media and the public more and more skeptical; the Council didn't want to raise expectations it could not meet; it didn't want to create a strong demand for services which it could not meet.

Fourth, it was decided that the Council would concentrate solely on labor relation problems—specifically, it would not get involved in human resources efforts, i.e. govenment manpower programs and training. The feeling was that something could be done about labor unemployment. Again, the Council felt this would involve it with "govenment", an involvement which was unanimously rejected by the members.

The first problem to be addressed was the obvious lack of a unified approach to the area's economic development. There were numerous agencies working on the problem, but each was going its own way. There was considerable bickering and a series of jurisdictional struggles. Although serveral attempts had been made to unify these efforts, none had succeeded. The Economic Development Administration was painfully aware of this problem and pressured the Council and other economic development agencies by restricting funding until the long standing fragmentation was ended. Therefore, the Council's Co-Chairman, with an Advisory Council member, Harlan Swift, Chairman of the Board of a local bank, suggested to the Mayor and County Executive an organizational structure which could bring all economic development agenices under one umbrella. There followed an eighteen month turmoil in which the recommendation went through a negotiatation process which involved not only the agencies concerned, but all local political leaders. When the State legislature finally approved the legislation enabling the community to broaden the board of the Industrial Development Agency to include all necessary parties,

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the Governor's legal staff recommended a veto. The Governor rejected the veto in the face of what he called an unprocedented outpouring of bi-partisan support for the bill.

The Co-Chairman of the Labor-Management Council serve as Chairman and Vice President of the Erie County Industrial Development Agency and also headed the selection committee which recruited the first Executive Director of the E.C.I.D.A. The problem of the labor relations climate and image was the assisgnment of the Labor-Management Council.

This report looks back over three and one half years in which the Council took the model developed in Jamestown and Chautauqua County and made it a viable and useful tool for economic development in a large urban area. Along the way the model had be enlarged and refined, and as the detail below will amply illustrate, as remained dynamic and in need of continual refinement.

Since early 1976 the economic situation has been reversed. Total employment has increased 10%, almost 50,000 jobs have been added. About 10,000 of those jobs are in manufacturing, and some 8,000 jobs have been added in construction. The unemployment rate is the lowest it has been in the decade. Working time lost due to strikes has fallen in each of the three years of the Council's existence and instead of ranking first, the City now ranks below the median of a sample of thirty-three major cities. County government is stable, the City has a surplus. The Port of Buffalo has had more traffic this year than the last six years put together. The downtown area is crawling with construction sites. A new convention center, new hotels, a rapid transit system, new arterial roads, industrial parks and a growing sense of regeneration and pride have developed. The Labor-Management Council is happy to have played a part in this effort.

There follows a detailed look at the Council and what it does.

II. IN-PLANT LABOR-MANAGEMENT COMMITTEES

The major technique for improving a particular collective bargaining relationship is the in-plant labor-management committee (LMC).

The plant LMC is a forum, specifically and carefully defined as separate from the negotiating and grievance forums, where the parties can jointly discuss, investigate and resolve problems where the goals of the parties are consistent or similar. Because of their positive orientation and effectiveness in building mutual trust, plant LMCs provide a device whereby bargaining relationships can be transitioned away from conflict and toward cooperation. The specific agenda for the LMC will depend on how far the parties have come towards developing a cooperative relationship and how fast they wish to move toward employee participation.

1. Mechanics

The chances of an LMC are strongly affected by how well the parties plan and control the Committee. There follows a quick sketch of the "nuts and bolts" of a plant LMC.

A. The top line management officer and the local union president are designated as Co-Chairmen of the LMC.

B. An agenda is prepared jointly by the Co-Chairmen.

C. A secretary is appointed and detailed minutes are kept, published and generally posted on bulletin boards.

Care must also be taken not to delegate every problem. These should be used only when sufficient data are not available to the LMC.

Once a solution has been tentatively agreed to the LMC must still decide upon one of the following:

(1) Immediate implementation.

(2) Refer to the bargaining committee to make necessary contractual changes which can be implemented by side-door agreement.

(3) Defer to next negotiations.

Most of the solutions can be effected immediately, but it is unrealistic to think they all can. The principle of gradualism must be accommodated where the solution is complex and/or requires major contractual changes.

2. Implementation

Once the parties have agreed to begin an LMC, some steps are necessary before the first meeting.

A. The purpose and objectives of the LMC must be thoroughly communicated throughout the organization. These communications are necessary to allay the suspicions and doubts of union members, supervisors and middle management. Middle level managers are especially concerned because the Union now has direct

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access to top level management. They will find, in short order, that the plant LMC does not undermine their power and authority, but initially they are understandably concerned.

Some union members will feel that its leadership is going too far towards cooperation, is negotiating without approval or is "selling out." When such members read the agenda and actual minutes of the meeting such suspicions tend to sharply diminish, but initially the feelings may be very strong. It is, therefore, essential that the purpose and plan for the LMC be communicated in advance.

B. *Agenda for first meeting.*—One of the major objectives of LMCs is communications. The major item of the first agenda should be a report from the top line manager on the state of the business. This report should be as frank and open as possible. The review should include problems as well as successes and should ask for specific action(s) from the LMC. Other items on the first agenda should include mechanics and one or two problems presented by union LMC members.

C. *Involvement of levels of union and management outside plant.*—In general, plant LMC meetings should be restricted to plant personnel. However, all levels of union and management should be involved and constantly informed regarding LMC activity. Prior approval and copies of LMC meeting minutes are usually sufficient. Once the LMC is functioning smoothly, slected visitors from outside the plant can be permitted without seriously disrupting LMC effectiveness.

D. If minutes are not posted, other means are utilized to fully communicate them to union personnel and all levels of management.

E. Both parties are free to withdraw from the LMC at any time.

F. *Problem solving approaches.*—Once the parties have agreed to study and resolve a problem it is important that such a study not degenerate into "paralysis by analysis." To prevent this from occurring, the following guidelines are used:

1. The plant LMC must clearly define the problem to be investigated.
2. The LMC must set deadline dates for:
   (a) Problem investigation.
   (b) Problem analysis.
   (c) Recommendations for solutions.
3. The entire investigation must be a joint effort.
   (a) A two man team—one from each side is ideal, but a small committee of up to three from each side is workable.
   (b) Data gathering, especially interviewing of source people, must be done by the study team together.
   (c) Recommendations must be joint—no minority briefs or dissents are permitted.
4. Information must be freely given but can be kept confidential within the LMC or within the study team if necessary.
5. The recommendation of the study team is not binding on the LMC or on the company, but must be given earnest and full consideration.
6. Other techniques include:
   (a) Referral to specific work group for resolution.
   (b) Committee as a whole working with specific department head.
   (c) Acting as oversight committee for joint committee handling specific problems: safety/hygiene; apprenticeship; and United Fund.

3. Agenda

The general objectives of the plant LMC are:

A. To provide for regular broad ranging contact and communications between the parties during contract term.

B. To focus that contact and communication on positive problem solving, achievement oriented activity.

C. To build informal relationships, trust and understanding.

D. To recognize the Union as a communication link with employee/members.

With these general objectives stated, we can look at the broad range of subjects which might be on the LMC agenda. It should be remembered that the actual agenda will be determined by the status of the relationship of the parties on the conflict-cooperation continuum.

1. Communication of business and operation progress and problems.
2. Planning for the introduction of new machinery.
3. Defining and publicizing quality problems.
4. Improving quality of workmanship and roducing re-work.
5. Training for new hires.
6. Using production time and facilities most effectively.
7. Reducing equipment breakdown and delays in repair.
8. Skill training for employees and supervisors.

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9. Organizing car pools.
10. Redesigning of jobs in specific departments.
11. Definition and resolution of broad problems in contract administration.
12. Reducing absenteeism, tardiness and unnecessary idle time.
13. Developing alcoholism and drug rehabilitation programs.
14. Conserving energy and eliminating waste of materials, supplies and equipment.
15. Reducing unnecessary overtime.
16. Government mandated programs (OSHA, Affirmative Action).
17. Improving cost performance.
18. Improving local health services.
19. Informing the community on company actions such as pollution control.
20. Productivity-Job Security Programs.
21. Gains-sharing programs.
22. Cost reduction programs.
23. Security, safety, fund raising.
24. Sales support required.

4. Relationship with grievance procedure

The general rule is that no matter which is grist for grievance mill will be discussed in the LMC forum. However, very often the grievance procedure defines general problems which need joint study. In the Council's view such studies fit into the LMC format because an effective solution is mutually desired by the parties. Specific grievances, however, must be barred from the LMC.

5. Relationship with collective bargaining

The LMC cannot be utilized for collective bargaining, but the line between joint problem solving and bargaining can become very nebulous. However, if the parties retain the option of deferring the matter to the negotiations forum wherever the positions of the parties are not consistent, confusions can be eliminated.

Perhaps William W. "Wimpy" Winpisinger, President of the International Association of Machinists and Aerospace Workers makes the point most precisely. He views the LMC as a "supplement to, but not a substitute for collective bargaining".

The Council uses a process approach to move the parties from conflict toward cooperation. The first step is a detailed analysis of the current status of the relationship to determine its place on the conflict-cooperation continuum. The second is securing the commitment of the parties to improving the relationship and to a set of positive labor relations principles. The set of principles that the parties must agree and commit to are:

1. Management must accept the union as a fact of life, i.e. as a permanent and legitimate partner in the collective bargaining process.
2. The union must accept management's responsibility to guide the enterprise and produce a reasonable profit.
3. Management must fully recognize the rights and responsibilities of the union, its officers and its members.
4. The union must recognize its responsibility to provide an effective, dedicated and hardworking human resource.
5. Management must recognize the union as a vital communication link with employee/members and keep it fully informed as to the performance of the company, its current successes and problems.
6. The union must concern itself with labor cost per unit and strive to stabilize and then to lower this basic measure of labor performance.
7. Management must actively seek out, objectively consider, support and implement ideas from union leaders and members to improve operations.
8. The union must keep its more militant elements restrained within the bounds of the grievance procedure and actively work to develop positive labor relations attitudes in its stewards and grievance men.
9. Management must make sure all supervisory and middle management personnel are trained in and applying the positive labor relations approach.
10. Both parties must strive to make the grievance procedure an expeditious and effective problem solving system.
11. Both parties must reserve the use of all types of economic force for the period of collective bargaining.
12. Both parties must understand that changes in attitudes contractual procedures and organizational climate and effectiveness are going to be gradual and not immediate.

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Once that committment has been given and the parties jointly determine the place of their relationship on the conflict-cooperation continuum, they develop a joint strategy for moving towards cooperation.

6. Staff support activities

In addition to the consistent counseling of both parties, the Council's staff supports the plant LMC in a number of ways.

A. *Training.*—The Council has developed or directed the development of a number of programs needed by specific plant LMCs. These programs whether presented by Council staff or other resource people are always taught to joint union-management student groups.

(1) Grievance processing and analysis.
(2) Advanced contract administration.
(3) Safety-OSHA.
(4) Operations improvement techniques.

B. *Manpower analysis.*—Long term job security, upward and lateral mobility, lines of progression, training; all these are of vital concern to union, to management, and most importantly, to individual employees. A manpower analysis will help spell out the real as opposed to the conjectured nature of these possible problem areas. A manpower plan flows naturally from the analyses and can permit the parties to creatively plan their joint futures. But even the analysis alone can help most collective bargaining relationships by reducing tensions and clearly defining problems.

The Council has developed a methodology to guide the parties (management usually does the analyses). In addition, Council staff is available for counsel and will do the analysis for smaller employers.

7. Grievance process improvement

Sometimes the analysis of the bargaining relationship reveals that the grievance process is the parties' principal battleground, and that they are openly engaged in confrontation or guerrilla warfare. The symptoms of such a situation are many grievances over the same issue, inordinate delay, very few resolutions of problems, emotional advocacy, poor investigations, seething frustration, poor morale and performance. In our experience, the grievance process must have some minimal level of civility and effectiveness if an LMC is to be effective. Otherwise the gap between behavior in the grievance war and behavior to be expected in the LMC is so wide that the parties have difficulty playing both roles. In such situations there is a danger the LMC may collapse. In such cases, the Council advises the parties to improve the grievance process before entering into an in-plant LMC. If the parties jointly request, the Council will act as a catalyst to improve the process, by—

(1) directing joint investigation of the history of the process (not individual grievances);
(2) providing joint labor-management training in grievance analysis and processing; and
(3) mediating grievance prior to arbitration (where the FMCS or State agencies are not readily available).

8. Prenegotiations studies

Bargaining today is a very complex matter. Issues are numerous and often very technical. It is, therefore, incumbent on both parties to do their homework and make sure they enter into negotiations with a proper factual analysis and full understanding of the problem. Often this fact-finding, if undertaken jointly, can lead to a solution of the problems the parties can then confirm in negotiations. The Council, at the request of the parties, has undertaken several such studies, generally in conjunction with in-plant or economic development LMCs. Some examples:

(1) A joint study of the financial condition of an association employers led to a two year wage moratorium, certain reductions in fringe benefits, and the continued operation of the employers.
(2) A joint study of contractual work practices led to a fuller understanding of the history and cost effects of the practices, reduction in tension and some positive changes in the behavior of both parties.
(3) A joint study of the feasibility of incentives for certain jobs led to a shared answer and removed an explosive issue from the bargaining table.
(4) A joint study of organization structure and manpower led to a creative "win-win" solution which was then confirmed during negotiations.

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9. The large company LMC

One early skepticism was that the LMC process would not work in a large organization. The Council is now working with six firms which range in size from one to three thousand employees. The largest is a utility company which experienced very bitter back-to-back strikes in 1975 and 1977, the last one lasting nineteen weeks. The company serves eleven counties in Western New York. The parties have had to come up with creative solutions to the problems of size and the vast geographical area they serve.

A look at the structure and mechanics of the LMC process in this company will provide some measure of the adaptations necessary.

A. *Structure.*—There are fifteen LMCs within the company. The overall effort is guided by a steering committee composed of the business manager, president and secretary of the production local and the president and secretary of the clerical local. The company representatives, the presidents of both the distribution and supply companies, the vice president of operations for the distribution company and the vice president of services. The personnel director is the secretary.

The fourteen committees under the steering committees are generally defined by geography and take in personnel from both the clerical and production locals. Niagara Falls, Batavia, Wellsville and Dunkirk, New York, which are twenty miles North, forty-five miles East, one hundred twenty miles Southwest, and fifty miles South of Buffalo respectively define the system.

The exceptions to the geographical definition are two, the mechanical department and clerks in the metropolitan operators area which form two LMCs defined by functions.

B. *Mechanics.*—A number of variations have been necessary:

1. Minutes from the fourteen location LMCs are endorsed and distributed throughout the system.
2. The parties developed and distributed a slide show about the LMC, its progress and its problems.
3. There is a quarterly meeting of the co-chairmen of the fifteen LMCs to discuss the process and substantive matters.
4. The schedule for the location of LMC meetings is distributed at the beginning of each month and members of the steering committee make unannounced visits to the location LMCs to audit the process.
5. A semi-annual dinner of the steering committee is held. The chairman of the board of company and the international vice president and international representative of the union also attend. The meeting is used to update them and plan for the future.
6. The location LMCs can refer system wide questions and problem to the steering committee for guidance and resolution via their minutes or through intra company channels.

These lessons have proven extremely valuable as the Council moves into a number of larger organizations. It is currently working with a local newspaper with eight unions, a bus company handling traffic in two counties, and a major capital goods manufacturer with three unions all of which have more than one thousand employees.

10. Further thoughts

These first few years have been a learning experience for the Council. While plant LMCs have existed since at least the nineteen twenties, an area wide effort to encourage the LMC process is new. The following thoughts outline some of the things we have learned in sponsoring plant LMCs.

A. *An area-wide LMC and/or its staff is not a necessary condition for an LMC.*—We have at least sixty years of history where plant LMCs existed without area LMCs. It is important to recognize this so the Council and its staff restrict limited resources to concentrate on these relationships where the parties need help to get the process started. In the Buffalo area there are at least a dozen firms and unions which have LMCs, some in being for many years, with no support from the Council.

B. *An area-wide LMC and its staff is not a necessary factor to continue a plant LMC.*—One objective of the plant LMC is to improve the collective bargaining relationship. Assuming this objective has been met, the continuing staff support by the area LMC becomes redundant and should be removed. This is not to say, that the area LMC may not have a "maintenance" function to perform. It should be available to either or both parties if a problem develops and/or new people on either side need to be oriented. Further, it should monitor the on-going process through minutes and occasional contact. But, if the process is to become self-

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sustaining, as the Council believes it should, then at some point the third party must withdraw from constant involvement.

C. *An initial deep commitment from both parties is a necessary condition for the success of an LMC.*—The course of an LMC seldom does run smooth. Along the way the parties sometimes tend to revert to their old patterns of behavior, a sudden unilateral move by management may disrupt the process, turnover in management or the union may intervene, militant behavior in the adversary forums (negotiations or grievance) may "slop over" to the LMC. In short, a myriad of hurdles may suddenly spring up in the path, and, only if there is a deep-seated commitment can these be overcome *without damage to the process.*

D. *The parties should realize that the LMC process tends to increase employee/member participation in both organizations and tends to permanently change the way both organizations do business with each other.*—The LMC process is consistent with decentralization, employee participation, information sharing, open communications and dynamism. It is inconsistent with authoritarianism, centralization, rigidity, and hierarchial status. Both parties must recognize this going into the process. Behaviors will change in the direction of openness, mutual respect and trust. If the parties have philosophies or organizational structures which cannot accept the openness of the process, that party should not get involved.

E. *Because of the depth to which the process imparts the organization of both parties, several corallaries follow.*—

(i) *The LMC process must be the joint product of the parties, not the product of the netural.*—The Council is only a catalyst or, at most, a process engineer to guide the parties in moving towards positive and mature labor relations. If the process is to be long lasting and self-sustaining, the parties must provide both the engine and the fuel for change. The third party must be able to advise, to counsel and then to withdraw when the process becomes self-sustaining. The parties, while listening to the third party, must understand that they are planning their joint future which will be realized, for the good or for ill, without the third party. The function of the Council is (1) to provide expertise in the LMC process and (2) to tap the expertise and wisdom of the parties to harmonize their respective organizational imperatives with the LMC change process.

(ii) *The parties must define:* (a) the structure of the LMC and the scope of the agenda; (b) timing of the change process; and (c) how the planning, communications, problem solving mechanisms of the LMC will fit into their respective organizations.

(iii) *The parties must decide how the LMC process will be integrated with the total collective bargaining relationship.* The problem definition and problem solving mechanisms of the LMC have direct and important impacts on contract administration and negotiations. The expected effects on contract administration are greater objectivity, fewer grievances, more information sharing and a tendency to resolve important issues short of arbitration. The expected impacts on negotiation are the isolation and definition of problems (especially non-economic matters) which will be issues for bargaining, the identification of contract language and practices which can be changed to the mutual trust and understanding which permit negotiations to be more efficient and effective.

Clearly, the parties must *not* use the LMC as the formal grievance forum or for negotiations. Further, they must take care that the borderlines between the LMC and those forums are well defined.

The Council suggests that once a problem has been defined to the extent it is clear the solution will require contractual changes: (1) it be referred to a joint pre-negotiation study sub-committee of the bargaining committees; or (2) be deferred until negotiations.

F. *Plant LMCs must keep a process orientation and not get singularly focused on some specific project.*—A major object of the LMC is to improve and mature the total labor relations relationship. This is a broad organization climate change objective. When LMCs' focus on some "quality of working life" or "employee participation" project or gimmick they tend to succeed or fail with the project. Since many such projects are poorly conceived, especially when the predictable effects on the total organizetion are not well considered, the risks of failure are high. Further, many of the "social scientists" pushing such projects have little or no understanding of the dynamics of labor relations and should not be permitted to as Andy Biemiller of the AFL–CIO put is, "muck about in the delicate balance of labor relations".

If the parties want to use some of the newer techniques to meet the needs they have clearly perceived and defined, they should very carefully fit the project into the overall plan for the change in their relationship. They should carefully choose any outside consultant they may need, carefully define his/her mandate and tightly control his/her performance and activities.

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G. *Training in cooperative labor relations and in the grievance and arbitration process can be helpful in expediting and reinforcing the organizational chance process.*

H. *The presence of a third party in the beginning and the availability of a third party when the process matures, while not absolute necessities, can contribute significantly to the ease and speed of the effort to improve the relationship and to the maintenance of a good relationship once achieved.*

I. *The use of seminars, wherein plant LMC members have a chance to present their activities and programs to each other and the community generally, are powerful tools to reinforce the process.*

J. *Regularity and continuity of LMC meetings are critical to the process.*—Interruptions in the monthly meeting schedule must not be tolerated, expect during the last two months of negotiations and then only if the parties make that explicit decision.

K. *The formal union leadership and all levels of management must be involved in the committee.*—To remove the formal union leadership structure from the process is to court disaster. They must not only sanction the process, but must be involved. If improvement of the relationship between the parties is an objective, the exclusion of one party is nonsensical. Participation of union members can be accommodated by rotating members, by assignments on sub-committees and by the constant communication of all LMC activities.

One of the effects of an LMC is to provide a direct two-way communication channel between the chief operating officer of the company and union leadership and members. This mechanism, while taking considerable static and filtering out of the system, tends to raise considerable insecurity in middle level managers who may feel cut out of the process. It is, therefore, essential that they be explicitly invited in through communications, rotating membership on the LMC, making presentations to the LMC, and through sub-committee assignments.

L. *Openness, full and constant communications to and from all members of both organizations is the key to the entire process.*

The Council currently works with 42 plant LMCs. The firms involved range in size from 100 to 3,000 employees. Industries include rubber, plastics, metal fabricating, utilities, primary metals, transportation, textiles, printing, grainmilling, foods, cargo, and machinery. All major unions are involved in the process. A detailed list of committees is attached as Appendix I. It is anticipated that eventually there will be 300 or so plant LMCs in the Buffalo area.

Labor Management Cooperation Act of 1978

Sec. 6. (a) This section may be cited as the "Labor Management Cooperation Act of 1978".

(b) It is the purpose of this section—

(1) to improve communication between representatives of labor and management;

(2) to provide workers and employers with opportunities to study and explore new and innovative joint approaches to achieving organizational effectiveness;

(3) to assist workers and employers in solving problems of mutual concern not susceptible to resolution within the collective bargaining process;

(4) to study and explore ways of eliminating potential problems which reduce the competitiveness and inhibit the economic development of the plant, area or industry;

(5) to enhance the involvement of workers in making decisions that affect their working lives;

(6) to expand and improve working relationships between workers and managers; and

(7) to encourage free collective bargaining by establishing continuing mechanisms for communication between employers and their employees through Federal assistance to the formation and operation of labor management committees.

(c)(1) Section 203 of the Labor-Management Relations Act, 1947, is amended by adding at the end thereof the following new subsection:

"(e) The Service is authorized and directed to encourage and support the establishment and operation of joint labor management activities conducted by plant, area, and industrywide committees designed to improve labor management relationships, job security and organizational effectiveness, in accordance with the provisions of section 205A."

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(2) Title II of the Labor-Management Relations Act, 1947, is amended by adding after section 205 the following new section:

"Sec. 205A. (a)(1) The Service is authorized and directed to provide assistance in the establishment and operation of plant, area and industrywide labor management committees which—

"(A) have been organized jointly by employers and labor organizations representing employees in that plant, area, or industry; and

"(B) are established for the purpose of improving labor management relationships, job security, organizational effectiveness, enhancing economic development or involving workers in decisions affecting their jobs including improving communication with respect to subjects of mutual interest and concern.

"(2) The Service is authorized and directed to enter into contracts and to make grants, where necessary or appropriate, to fulfill its responsibilities under this section.

"(b)(1) No grant may be made, no contract may be entered into and no other assistance may be provided under the provisions of this section to a plant labor management committee unless the employees in that plant are represented by a labor organization and there is in effect at that plant a collective bargaining agreement.

"(2) No grant may be made, no contract may be entered into and no other assistance may be provided under the provisions of this section to an area or industrywide labor management committee unless its participants include any labor organizations certified or recognized as the representative of the employees of an employer participating in such committee. Nothing in this clause shall prohibit participation in an area or industrywide committee by an employer whose employees are not represented by a labor organization.

"(3) No grant may be made under the provisions of this section to any labor management committee which the Service finds to have as one of its purposes the discouragement of the exercise of rights contained in section 7 of the National Labor Relations Act (29 U.S.C. 157), or the interference with collective bargaining in any plant, or industry.

"(c) The Service shall carry out the provisions of this section through an office established for that purpose.

"(d) There are authorized to be appropriated to carry out the provisions of this section $10,000,000 for the fiscal year 1979, and such sums as may be necessary thereafter.".

(d) Section 302(c) of the Labor Management Relations Act, 1947, is amended by striking the word "or" after the semicolon at the end of subparagraph (7) thereof and by inserting the following before the period at the end thereof: "; or (9) with respect to money or other things of value paid by an employer to a plant, area or industrywide labor management committee established for one or more of the purposes set forth in section 5(b) of the Labor Management Cooperation Act of 1978."

(e) Nothing in this section or the amendments made by this section shall affect the terms and conditions of any collective bargaining agreement whether in effect prior to or entered into after the date of enactment of this section.

[From Harvard Business Review, July-August 1979]

Quality of Work Life—Learning From Tarrytown

At this large GM plant the union and management jointly seek to change the meaning of work itself

(By Robert H. Guest)

Currently, when business people and researchers talk or write about the beginnings of the human relations era in management, the name Hawthorne is invariably mentioned. In the future, when they talk about quality of work life, they will refer to Topeka, Kalmar, and Tarrytown. Each plant's experience with a quality of work life effort, essentially a structured program to involve workers in decisions affecting how they work, is unique. Each plant had different problems and different reasons for beginning a quality of work life program. Tarrytown, a GM car assembly plant in New York state, is perhaps the plant with the greatest number of people ever to have undergone such a program and is perhaps one that had the most to gain, for it was in a fairly sad economic state when the program began. This is the story of the

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developing and ongoing quality of work life program at Tarrytown, accented by quotes from the people involved.

Mr. Guest is professor organizational behavior at the Amos Tuck School of Business Administration at Dartmouth College. He has published widely on the subject of work life, and is the coauthor, with the late C. R. Walker, of The Man on the Assembly Line (Harvard University Press, 1952, republished by Arno Press, Inc., New York, 1979), one of the first books to outline the questions that quality of work life programs attempt to solve.

Imagine that an executive of one of our largest corporations is told that one of his plant managers wants to spend over $1.6 million on a program that has no guarantee of any return in greater efficiency, higher productivity, or lower costs. Then imagine how he would react if he were told that the union is in on the program up to its ears and that the purpose of the program is referred to as "improving the quality of work life."

If the reader imagines that the average top corporate manager would say the plant manager had lost his senses and ought to be fired, the reader is probably in the majority. The striking fact, however, is that one particular executive, the head of what is probably the largest division of any manufacturing company in the world (18 plants and almost 100,000 employees) knew just what was going on and approved the idea enthusiastically.

This is the story of the General Motors car assembly plant at Tarrytown, New York. In 1970, the plant was known as having one of the poorest labor relations and production records in GM. In seven years, the plant turned around to become one of the company's better run sites.

Born out of frustration and desperation, but with a mutual commitment by management and the union to change old ways of dealing with the workers on the shop floor, a quality of work life (QWL) program developed at Tarrytown. "Quality of work life" is a generic phrase that covers a person's feelings about every dimension of work including economic rewards and benefits, security, working conditions, organizational and interpersonal relationships, and its intrinsic meaning in a person's life.

For the moment, I will define QWL more specifically as a process by which an organization attempts to unlock the creative potential of its people by involving them in decisions affecting their work lives. A distinguishing characteristic of the process is that its goals are not simply extrinsic, focusing on the improvement of productivity and efficiency per se; they are also intrinsic, regarding what the worker sees as self-fulfilling and self-enhancing ends in themselves.

In recent years, the QWL movement has generated wide-scale interest. Just since 1975, more than 450 articles and books have been written on the subject, and there are at least four national and international study and research centers focusing on quality of work life as such. Scores of industrial enterprises throughout the United States are conducting experiments, usually on a small scale; and in an eight-month world study tour a few years back of more than 50 industrial plants in Japan, Australia, and Europe, I found great interest in "industrial democracy."

So what is special about the Tarrytown story? First, it has the earmarks of success. Second, it illustrates some underlying principles of successful organizational change that can be applied in a variety of work environments. Third, although a number of promising experiments are going on in many General Motors plants and in other companies, this QWL program has involved more human beings—more than 3,800—than any other I know of. Finally, and this is speculative, I believe that Tarrytown represents in microcosm the beginnings of what may become commonplace in the future—a new collaborative approach on the part of management, unions, and workers to improve the quality of life at work in its broadest sense.

TARRYTOWN—THE BAD OLD DAYS

In the late 1960s and early 1970s, the Tarrytown plant suffered from much absenteeism and labor turnover. Operating costs were high. Frustration, fear, and mistrust characterized the relationship between management and labor. At certain times, as many as 2,000 labor grievances were on the docket. As one manager puts it, "Management was always in a defensive posture. We were instructed to go by the book, and we played by the book. The way we solved problems was to use our authority and impose discipline." The plant general superintendent acknowledges in retrospect, "For reasons we thought valid, we were very secretive in letting the union and the workers know about changes to be introduced or new programs coming down the pike."

Union officers and committeemen battled constantly with management. As one union officer describes it, "We were always trying to solve yesterday's problems.

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There was no trust and everybody was putting out fires. The company's attitude was to employ a stupid robot with hands and no face." The union committee chairman describes the situation the way he saw it: "When I walked in each morning I was out to get the personnel director, the committeeman was shooting for the foreman, and the zone committeeman was shooting for the general foreman. Every time a foreman notified a worker that there would be a job change, it resulted in an instant '78 (work standards grievance). It was not unusual to have a hundred '78s hanging fire, more than 300 discipline cases, and many others."

Another committeeman adds, "My job was purely political. It was to respond instantly to any complaint or grievance regardless of the merits, and just fight the company. I was expected to jump up and down and scream. Every time a grievance came up, it lit a spark, and the spark brought instant combustion."

Workers were mad at everyone. They disliked the job itself and the inexorable movement of the highspeed line—56 cars per hour, a minute and a half per operation per defined space. One worker remembers it well, "Finish one job, and you always had another stare you in the face." Conditions were dirty, crowded, and often noisy. Employees saw their foremen as insensitive dictators, whose operating principle was "If you can't do the job like I tell you, get out."

Warnings, disciplinary layoffs, and firings were commonplace. Not only did the workers view the company as an impersonal bureaucracratic machine, "They number the parts and they number you," but also they saw the union itself as a source of frustration, "The Committeemen often wrote up a grievance but, because he was so busy putting out fires, he didn't tell the worker how or whether the grievance was settled. In his frustration, the worker would take it out on the foreman, the committeeman, and the job itself."

In the words of both union and management representatives, during this period "Tarrytown was a mess."

BEGINNINGS OF CHANGE

What turned Tarrytown around? How did it start? Who started it and why?

Because of the high labor turnover, the plant was hiring a large number of young people. The late 1960s was the time of the youth counterculture revolution. It was a time when respect for authority was being questioned. According to the plant manager, "It was during this time that the young people in the plant were demanding some kind of change. They didn't want to work in this kind of environment. The union didn't have much control over them, and they certainly were not interested in taking orders from a dictatorial managment."

In April 1971, Tarrytown faced a serious threat. The plant manager saw the need for a change, and also an opportunity. He approached some of the key union officers who, though traditionally suspicious of management overtures, listened to him. The union officers remember liking what they heard, "This manager indicated that he wanted to create a philosophy of management different from what had gone on before. He felt there was a better way of doing things."

The plant manager suggested that if the union was willing to do its part, he would put pressure on his own management people to change their ways. The tough chairman of the grievance committee observed later "this guy showed right off he had a quality of work life attitude—we didn't call it that that time—inside him. He was determined that this attitude should carry right down to the foreman, and allow the men on the line to be men."

The company decided to stop assembling trucks at Tarrytown and to shuffle the entire layout around. Two departments, Hard Trim and Soft Trim, were to be moved to a renovated area of the former truck line.

At first, the changes were introduced in the usual way. Manufacturing and industrial engineers and technical specialists designed the new layout, developed the charts and blueprints, and planned every move. They then presented their proposals to the supervisors. Two of the production supervisors in Hard Trim, sensing that top plant management was looking for new approaches, asked a question that was to have a profound effect on events to follow: "Why not ask the workers themselves to get involved in the move? They are experts in their own right. They know as much about trim operations as anyone else."

The consensus of the Hard Trim management group was that they would involve the workers. The Soft Trim Department followed suit. The union was brought in on the planning and told that management wanted to ask the workers' advice. Old timers in the union report "wondering about management's motives. We could remember the times management came up with programs only to find there was an ulterior motive and that in the long run the men could get screwed." Many supervisors in other departments also doubted the wisdom of fully disclosing the plans.

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Nevertheless, the supervisors of the two trim departments insisted not only that plans *not* be hidden from the workers but also that the latter would have a say in the setup of jobs. Charts and diagrams of the facilities, conveyors, benches, and materials storage areas were drawn up for the workers to look at. Lists were made of the work stations and the personnel to man them. The supervisors were impressed by the outpouring of ideas: "We found they did know a lot about their own operations. They made hundreds of suggestions and we adopted many of them."

Here was a new concept. The training director observes, "Although it affected only one area of the plant, this was the first time management was communicating with the union and the workers on a challenge for solving *future* problems and not the usual situation of doing something, waiting for a reaction, then putting out the fires later." The union echoes the same point: "This demonstrated how important it is to solve problems before they explode. If not solved, then you get the men riled up against everything and everybody."

Moving the two departments was carried out successfully with remarkably few grievances. The plant easily made its production schedule deadlines. The next year saw the involvement of employees in the complete rearrangement of another major area of the plant, the Chassis Department. The following year a new car model was introduced at Tarrytown.

LABOR-MANAGEMENT AGREEMENT

In 1972, Irving Bluestone, the vice president of the General Motors Department of the United Automobile Workers Union (UAW), made what many consider to be the kick-off speech for the future of the quality of work life movement. Repeated later in different forms, he declared:

"Traditionally management has called upon labor to cooperate in increasing productivity and improving the quality of the product. My view of the other side of the coin is more appropriate; namely, that management should cooperate with the worker to find ways to enhance the dignity of labor and to tap the creative resources in each human being in developing a more satisfying work life, with emphasis on worker participation in the decision-making process." [1]

In 1973, the UAW and GM negotiated a national agreement. In the contract was a brief "letter of agreement" signed by Bluestone and George Morris, head of industrial relations for GM. Both parties committed themselves to establishing formal mechanisms, at least at top levels, for exploring new ways of dealing with the quality of work life. *This was the first time QWL was explicitly addressed in any major U.S. labor-management contract.*

The Tarrytown union and management were aware of this new agreement. They had previously established close connections with William Horner of Bluestone's staff and with James Rae, the top corporate representative in the Organization Development Department. It was only natural that Tarrytown extend its ongoing efforts within the framework of the new agreement. Furthermore, Charles Katko, vice president and general manager of the GM Assembly Division, gave his enthusiastic endorsement to these efforts.

Local issues and grievances, however, faced both parties. In the past, it had not been uncommon for strike action to be taken during contract negotiations. The manager and the union representatives asked themselves, "Isn't there a better way to do this, to open up some two-way communication, gain some trust?" The union president was quick to recognize "that it was no good to have a 'love-in' at the top between the union and management, especially the Personnel Department. We had to stick with our job as union officers. But things were so bad we figured 'what the hell, we have nothing to lose.'"

The union president's observation about that period is extremely significant in explaining the process of change that followed:

"We as a union knew that our primary job was to protect the worker and improve his economic life. But times had changed and we began to realize we had a broader obligation, which was to help the workers become more involved in decisions affecting their own jobs, to get their ideaas, and to help them to improve the whole quality of life at work beyond the paycheck."

The negotiations were carried out in the background of another effort on management's part. Delmar Landon, director of organizational research and development at General Motors, had been independently promoting an organizational development effort for a number of years. These efforts were being carried out in many plants. Professionally trained communication facilitators had been meeting with supervisors and even some work groups to solve problems of interpersonal communication.

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[1] Irving Bluestone, "A Changing View of Union-Management Relationships," *Vital Speeches*, December 11, 1976.

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What General Motors was attempting to do was like the OD programs that were being started up in many industries and businesses in the United States. But, as with many such programs, there was virtually no union involvement. As the training director put it, "Under the influence of our plant manager, the OD program was having some influence among our managers and supervisors, but still this OD stuff was looked upon by many as a gimmick. It was called the 'happy people' program by those who did not understand it.' And, of course, because it was not involved, the union was suspicious.

Nevertheless, a new atmosphere of trust between the union and the plant manager was beginning to emerge. Local negotiations were settled without a strike. There was at least a spark of hope that the Tarrytown mess could be cleaned up. Thus the informal efforts at Tarrytown to improve union-management relations and to seek greater involvement of workers in problem solving became "legitimatized" through the national agreement and top level support. Other plants would follow.

THE TESTING PERIOD

In April 1974, a professional consultant was brought in to involve supervisors and workers in joint training programs for problem solving. Management paid his fees. He talked at length with most of the union officers and committeemen, who report that "we were skeptical at first but we came to trust him. We realized that if we were going to break through the communications barrier on a large scale, we needed a third party."

The local union officials were somewhat suspicious about "another management trick." But after talking with Solidarity House (UAW's headquarters), they agreed to go along. Both parties at the local level discussed what should be done. Both knew it would be a critical test of the previous year's preliminary attempts to communicate with one another on a different plane. Also, as one union person says, "We came to realize the experiment would not happen overnight."

Management and the union each selected a coordinator to work with the consultant and with the supervisors, the union, and the workers. The consultant, with the union and the management coordinators, proposed a series of problem-solving training sessions to be held on Saturdays, for eight hours each day. Two supervisors and the committeemen in the Soft Trim Department talked it over with the workers, of whom 34 from two shifts volunteered for the training sessions that were to begin in late September 1974. Management agreed to pay for six hours of the training, and the men volunteered their own time for the remaining two hours.

Top management was very impressed by the ideas being generated from the sessions and by the cooperation from the union. The regular repairmen were especially helpful. Not long after the program began, the workers began developing solutions to problems of water leaks, glass breakage, and molding damage.

LAYOFF CRISIS

In November 1974, at the height of the OPEC oil crisis, disaster struck. General Motors shut down Tarrytown's second shift, and laid off half the work force—2,000 workers. Men on the second shift with high seniority "bumped" hundreds of workers on the first shift. To accommodate the new schedule, management had to rearrange jobs and work loads the entire length of the two miles of main conveyors, feeder conveyors, and work stations. A shock wave reverberated throughout the plant, not just among workers but supervisors as well. Some feared the convulsion would bring on an avalanche of '78's—work standards grievances—and all feared that the cutback was an early signal that Tarrytown was being targeted for permanent shutdown. After all, it was one of the oldest plants in General Motors and its past record of performance was not good.

However, the newly developing trust between management and the union had its effects. As the union president puts it, "Everyone got a decent transfer and there were surprisingly few grievances. We didn't get behind. We didn't have to catch up on a huge backlog."

What did suffer was the modest and fragile quality of work life experiment. It was all but abandoned. Many workers who had been part of it were laid off, and new workers "bumping in" had not been exposed to it. Also, a number of persons in the plant were not too disappointed to see it go. Some supervisors, seeing worker participation as a threat to their authority, made wisecracks such as "All they are doing is turning these jobs over to the union." Some committeemen felt threatened because the workers were going outside the regular political system and joining with representatives of management in solving problems.

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In spite of the disruption of plant operations, the quality of work life team, the plant manager, and the union officials were determined not go give up. Reduced to a small group of 12 people during 1975, the team continued to work on water leaks and glass breakage problems. This group's success as well as that of some others convinced both parties that quality of work life had to continue despite a September 1975 deadline, after which management would no longer foot the bill on overtime.

During this period all parties had time to reflect on past successes as well as failures. The coordinators (one from the union and one from management) had learned a lesson. They had expected too much too soon: "We were frustrated at not seeing things move fast enough. We got in the trap of expecting 'instant QWL.' We thought that all you had to do was to design a package and sell it as you sell a product."

Also, during this period, the grapevine was carrying a powerful message around the plant that something unusual was going on. The idea of involving workers in decisions spread and by midyear the molding groups were redesigning and setting up their own jobs. Other departments followed later.

At this time everyone agreed that if this program were to be expanded on a larger scale, it would require more careful planning. In 1975, a policy group made up of the plant manager, the production manger, the personnel manager, the union's top officers, and the two QWL coordinators was formed. The program was structured so that both the union and management could have an advisory group to administer the system and to evaluate the ideas coming up from the problem-solving teams. Everyone agreed that participation was to be entirely voluntary. No one was to be ordered or assigned to any group. Coordinators and others talked with all of the workers in the two departments.

A survey of interest was taken among the 600 workers in the two volunteering departments; 95% of these workers said they wanted in. Because of the large number that wanted to attend, pairs of volunteers from the ranks of the union and management had to be trained as trainers. Toward the middle of the year, a modified program was set up involving 27 off-time hours of instructional work for the 570 people. Four trainers were selected and trained to conduct this program, two from the union and two from management.

A second crisis occurred when the production schedule was increased to a line speed of 60 cars per hour. Total daily output would not be enough to require a second shift to bring back all the laid-off workers. Instead, the company asked that 300 laid-off workers be brought in and that the plant operate on an overtime schedule. Ordinarily the union would object strongly to working overtime when there were still well over 1,000 members out on the street. "But," as the union president puts it, "we sold the membership on the idea of agreeing to overtime and the criticism was minimal. We told them the survival of the plant was at stake."

FULL CAPACITY

Despite the unheavals at the plant, it seemed that the quality of work life program would survive. Then, a third blow was delivered. Just as 60 workers were completing their sessions, the company announced that Tarrytown was to return to a two-shift operation. For hundreds of those recalled to work, this was good news. Internally, however, it meant the line would have to go through the same musical chair game it had experienced 14 months earlier when the second shift was dropped.

Workers were shuffled around according to seniority and job classification. Shift preferences were granted according to length of service. With a faster line speed than before, the average worker had fewer operations to perform but those he did perform he had to do at a faster pace. In short, because of possible inequities in work loads, conditions were ripe for another wave of work standards grievances. Happily, the union and management were able to work out the work-load problems with a minimum of formal grievances.

But again the small, partially developed QWL program had to be put on ice. The number of recalled workers and newly hired employees was too great, and turnover was too high among the latter for the program to continue as it had been. Capitalizing on the mutal trust that had been slowly building up between them, management and the union agreed to set up an orientation program for newly hired employees—and there were hundreds of them. Such a program was seen as an opportunity to expose new workers to some of the information about plant operations, management functions, the union's role, and so forth. At one point, the union even suggested that the orientation be done at the union hall, but the idea was dropped.

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The orientation program was successful. Some reduction in the ratio of "quits" among the "new hires" was observed. The union president did feel that "we had set a new tone for the new employee and created a better atmosphere in the plant."

BRAVE NEW WORLD

Early the next year, 1977, Tarrytown made the "big commitment." The QWL effort was to be launchd on a plant-wide scale involving approximately 3,880 workers and supervisors. Charles Katko, vice president for the division and UAW's top official, Irving Bluestone, gave strong signals of support. The plant manager retired in April and was replaced by the production manager. The transition was an easy one because the new manager not only knew every dimension of the program but also had become convinced of its importance.

The policy committee and the quality of work life coordinators went to work. In the spring 1977, all the top staff personnel, department heads, and production superintendents went through a series of orientation sessions with the coordinators. By June, all middle managers and first-line supervisors (general foreman and foremen) were involved. Thus by the summer of 1977 more than 300 members of Tarrytown management knew about the QWL approach and about the plans for including 3,500 hourly employees. All union committeemen also went through the orientation sessions.

Also, during mid-1977, plans were underway to select and train those people who would eventually conduct the training sessions for the hourly employess. More than 250 workers expressed an interest in becoming trainers. After careful screening and interviewing, 11 were chosen. A similar process was carried out for supervisors, 11 of whom were subsequently selected as trainers, mostly form among foremen.

The 2 coordinators brought the 22 designated trainers together and exposed them to a variety of materials they would use in the training itself. The trainers conducted mock practice sessions which were videotaped so they could discuss their performance. The trainers also shared ideas on how to present information to the workers and on how to get workers to open up with their own ideas for changing their work environment. The latter is at the heart of the quality of work life concept.

The trainers themselves found excitement and challenge in the experience. People from the shop floor workers side by side with members of supervision as equals. At the end of the sessions, the trainers were brought together in the executive dining room for a wrap-up session. The coordinators report that "they were so charged up they were ready to conquer the world!"

PLANTWIDE PROGRAM

On September 13, 1977 the program was launched. Each week, 25 different workers (or 50 in all from both shifts) reported to the training rooms on Tuesdays, Wednesdays, and Thursday, for nine hours a day. Those taking the sessions had to be replaced at their work stations by substitutes. Given an average, hourly wage rate of more than $7 per attendee and per replacement (for over 3,000 persons), one can begin to get an idea of the magnitude of the costs. Also, for the extra hour above eight hours, the trainees were paid overtime wages.

What was the substance of the sessions themselves? The trainee's time was allocated to learning three things: first, about the concept of QWL; second, about the plant and the functions of management and the union; third, about problem-solving skills important in effective involvement.

At the outset, the trainers made it clear that the employees were not to use the sessions to solve grievances or to take up labor-management issues covered by the contract itself. The presentation covered a variety of subjects presented in many forms with a heavy stress on participation by the class from the start. The work groups were given a general statement of what quality of work life was all about. The union trainer presented materials illustrating UAW Vice President Bluestone's famous speech, and the management trainer presented a speech by GM's Landen stressing that hourly workers were the experts about their own jobs and had much to contribute.

The trainers used printed materials, diagrams, charts, and slides to describe products and model changes, how the plant was laid out, how the production system worked, and what the organizational structures of management and the union are. Time was spent covering safety matters, methods used to measure, quality performance, efficiency, and so forth. The work groups were shown how and where they could get any information they wanted about their plant. Special films showed all

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parts of the plant with a particular worker "conducting the tour" for his part of the operation.

To develop effective problem-solving skills, the trainers presented simulated problems and then asked employees to go through a variety of some experiential exercies. The training content enabled the workers to diagnose themselves, their own behavior, how they appeared in competitive situations, how they handled two-way communications, and how they solved problems. By the final day "the groups themselves are carrying the ball," as the trainers put it, "with a minimum of guidance and direction form the two trainers."

Trainers took notes on the ideas generated in the sessions and at the end handed our a questionnaire to each participant. The notes and questionnaires were systematically fed back to the union and management coordinators, who in turn brought the recommendations to the policy committee. The primary mode of feedback to their foremen and fellow workers was by the workers themselves out on the shop floor.

CONTINUING EFFORT

Seven weeks after the program began in September 1977, just over 350 workers (or 10 percent of the work force) had been through the training sessions. The program continued through 1978, and by mid-December more than 3,300 workers had taken part.

When all the employees had completed their sessions, the union and management immediately agreed to keep the system on a continuing basis. From late December 1978 through early February 1979, production operations at Tarrytown were closed down to prepare for the introduction of the all-new 1980X model. During the shutdown, a large number of workers were kept on to continue the process.

In preparation for the shift, managers and hourly personnel together evaluated hundreds of anticipated assembly processes. Workers made use of the enthusiasm and skills developed in the earlier problem sessions and talked directly with supervisors and technical people about the best ways of setting up various jobs on the line. What had been stimulated through a formal organized system of training and communication (for workers and supervisor alike) was now being "folded in" to the ongoing planning and implementation process on the floor itself.

In evaluating the formal program, the trainers repeatedly emphasized the difficulties they faced as well as the rewards. Many of the men and women from the shop floor were highly suspicious at the start of the sessions. Some old-timers harbored grudges against management going back for years. Young workers were skeptical. Some of the participants were confused at seeing a union trainer in front of the class with someone from management.

In the early period, the trainers were also nervous in their new roles. Few of them had ever had such an experience before. Many agreed that their impulse was to throw a lot of information at the worker trainee. The trainers found, however, that once the participants opened up, they "threw a lot at us." Although they understood intellectually that participation is the basic purpose of the QWL program, the trainers had to experience directly the outpouring of ideas, perceptions, and feelings of the participants to comprehend emotionally the dynamics of the involvement process.

But the trainers felt rewarded too. They describe example after example of the workers' reactions once they let down their guard. One skeptical worker, for example, burst out after the second day, "Jesus Christ! You mean all this information about what's going on in the plant was available to us? Well, I'm going to use it." Another worker who had been scrapping with his foreman for years went directly to him after the sessions and said, "Listen, you and I have been butting our heads together for a long time. From now on I just want to be able to talk to you and have you talk to me." Another worker used his free relief time to drop in on new class sessions.

Other regular activities to keep management and the union informed about new developments parallel the training sessions. Currently, following the plant manager's regular staff meetings, the personnel director passes on critical information to the shop committee. The safety director meets weekly with each zone committeeman. Top union officials have monthly "rap sessions" with top management staff to discuss future developments, facility alterations, schedule changes, model changes, and other matters requiring advance planning. The chairman of Local 664 and his zone committeemen check in with the personnel director each morning at 7:00 a.m. and go over current or anticipated problems.

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AFTER THE DUST SETTLES

What are the measurable results of quality of work life at Tarrytown? Neither the managers nor union representatives want to say much. They argue that to focus on production records or grievance counts "gets to be a numbers game" and is contrary to the original purpose or philosophy of the quality of work life efforts. After all, in launching the program, the Tarrytown plant made no firm promises of "bottom line" results to division executives or anyone else. *Getting the process of worker involvement going was a primary goal with its own intrinsic rewards. The organizational benefits followed.*

There are, however, some substantial results from the $1.6 million QWL program. The production manager says, for example, "From a strictly production point of view—efficiency and costs—this entire experience has been absolutely positive, and we can't begin to measure the savings that have taken place because of the hundreds of small problems that were solved on the shop floor before they accumulated into big problems."

Although not confirmed by management, the union claims that Tarrytown went from one of the poorest plants in its quality performance (inspection counts or dealer complaints) to one of the best among the 18 plants in the division. It reports that absenteeism went from 7¼ percent to between 2 percent and 3 percent. In December 1978, at the end of the training sessions, there were only 32 grievances on the docket. Seven years earlier there had been upward of 2,000 grievances filed. Such substantial changes can hardly be explained by chance.

Does this report on Tarrytown sound unreal or euphoric? Here are the comments of the most powerful union officer in the plant, the chairman of Local 664:

"I'm still skeptical of the whole thing but at least I no longer believe that what's going on is a 'love-in' at Tarrytown. It's not a fancy gimmick to make people happy. And even though we have barely scratched the surface, I'm absolutely convinced we are on to something. We have a real and very different future. Those guys in the plant are beginning to participate and I mean really participate!"

By May 1979 the Tarrytown plant, with the production of a radically new line of cars, had come through one of the most difficult times in its history. Considering all the complex technical difficulties, the changeover was successful. Production was up to projected line speed. The relationship among management, union, and the workers remained positive in spite of unusual stress conditions generated by such a change.

As the production manager puts it, "under these conditions, we used to fight the union, the worker, and the car itself. Now we've all joined together to fight the car." Not only were the hourly employees substantially involved in working out thousands of "bugs" in the operations, but plans were already under way to start up QWL orientation sessions with more than 400 new workers hired to meet increased production requirements.

Tarrytown, in short, has proved to itself at least that QWL works.

LEARNING FROM TARRYTOWN

Although the Tarrytown story is, of course, unique, persons responsible for bringing about change in an organization might derive some useful generalizations and important messages from it. (See the ruled insert on page 86 for a list of general observations on quality of work life.)

Bringing about change—any kind of change—is extraordinarily difficult in our modern organizations. It is challenge enough to introduce new machines, computers, management information systems, new organizational structures, and all the bureaucratic paraphernalia required to support our complex production systems. It is even more difficult to organize and stimulate people to accept innovations directed at greater efficiency. Perhaps most difficult of all, as one looks at the quality of work life process and Tarrytown as an example, is for managers, union officials, and even workers themselves to adjust to the idea that certain kinds of changes should be directed toward making life at work more meaningful and not necessarily toward some immediate objective measures of results.

Even when people become committed to this idea, starting the process is not easy. Witness, for example, how long it took to turn the Tarrytown ship around. Look at the roadblocks its people had to overcome; deep-seated antagonisms between management and labor and the impact of changes beyond the control of the organization itself—new facilities, new products, and personnel changes at all levels, especially among hourly workers. Just when the quality of work life efforts gained some momentum, an unanticipated event intervened and the program was stopped dead

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in its tracks—almost. Indeed, one gets the impression that the only constant was change itself.

Some observations are in order. Developing this climate for change takes extraordinary patience. It takes time. It calls for sustained commitment at all levels. In most of the efforts to change human behavior that I have observed directly, these characteristics are lacking. Managers and leaders are under pressure to change things overnight. They draw up a program, package it, press the authority button, set deadlines, then move. It all sounds so easy, so efficient, so American.

In changing the way Americans work, we have, as the chairman of Local 664 said, "barely scratched the surface." What went on at Tarrytown was only a beginning. The intrinsic nature of repetitive conveyor-paced jobs has not substantially changed. The commitment to quality of work life is strong at the local level and among some people at division and corporate levels, but it is not universal. Changes in management or new crises could threaten further developments. Nevertheless, a new atmosphere about change and the worker's role in it is clearly emerging. People feel they have some "say," some control over their work environment now and in the future.

The Tarrytown story may, however, reflect something important about quality of work life efforts springing up in many other places in the United States. Studies are showing that workers in our large, rationalized industries and businesses are seeking more control over and involvement in the forces affecting their work lives. Due in part to the rising levels of education, changing aspirations, and shifts in values, especially among young people, I believe we are witnessing a quiet revolution in what people expect from work, an expectation that goes beyond the economic and job security issues that led to labor unrest in an earlier day.[2]

In parts of Europe, the response to this quiet revolution is manifest in broad-scale political efforts on the part of labor and government to gain greater control over the management of the enterprise itself. In the United States, the response is different.[3] Workers or their unions have given no indications that they wish to take over basic management prerogatives. As the Tarrytown story illustrates, what they want is more pragmatic, more immediate, more localized—but no less important.

The challenge to those in positions of power is to become aware of the quiet revolution at the workplace and to find the means to respond intelligently to those forces for change. What management did at Tarrytown is but one example of the beginnings of an intelligent response.

QUALITY OF WORK LIFE—THINGS TO CONSIDER

What generalizations or principles might one derive from the Tarrytown story? The list below combines those of the participants themselves with my own observations about quality of work life experiments here and abroad. The list is not exhaustive. The first six are limited in general to organizations with collective bargaining agreements. The others have more universal applications.

1. For quality of work life to succeed, management must be wholly competent in running the business as a profit-making enterprise. When management lacks organizational competence and adequate technical expertise, no amount of good intentions to improve worker-union-management communication will succeed. Workers will not be willing to become involved knowing management lacks the competence to do anything about their ideas.

2. The union must be strong. The members must trust their leadership, and this trust must exist within the framework of a democratic "political" process.

3. In most instances, management has to be the first party to initiate change, to "hold out the olive branch."

4. Quality of work life should never be used by either party to circumvent the labor-management agreement. The rights, privileges, and obligations of both parties should remain inviolate. Dealing with grievances and disputes can be made easier through quality of work life efforts, but at no time should management give up its right to manage nor the union its right to protect its members on matters related to wages, hours, benefits, and general conditions of employment.

5. Top management and top union officials must make an explicit commitment to support quality of work life.

6. Even with agreement at high levels and a demonstrated concern on the part of rank-and-file employees, it is essential that middle management and front-line

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[2] For recent confirmation based on survey data over a period of 25 years, see M. R. Cooper, B. S. Morgan, P. M. Foley, and L. B. Kaplan, "Changing Employee Values: Deepening Discontent," HBR January–February 1979, p. 117.

[3] For a fuller discussion of the differences between American and European responses to labor today, see Ted Mill's "Europe's Industrial Democracy: An American Response," HBR November–December 1978, p. 143.

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supervisors (and shop stewards) not only know what is taking place but also feel they have a say in the change process. Supervisors naturally feel threatened by any moves to give subordinates greater power in determining how work is to be performed. Union representatives can perceive unilateral work participation as a threat to their political position.

7. A quality of work life program is unlikely to succeed if management's intention is to increase productivity by speeding up the individual worker's work pace or, if it uses the program *as such*, to reduce the work force through layoffs. Workers will quickly see such actions as unfair exploitation. This is not to say that cost savings from better quality performance, lower absenteeism and turnover, and better production methods should not be an expected consequence of the effort.

8. A program should be voluntary for the participants.

9. Quality of work life should not be initiated with a detailed master plan. It should start on a limited scale focused on the solution of specific problems, however small. It should be flexible.

10. At each step in developing a program, all small bottlenecks or misunderstandings must be talked out and solved on the spot. If set aside simply to get on with the "important" plans, the little misunderstandings can later explode with enough force to destroy the entire program.

11. It is not enough to expose employees to the principles of effective interpersonal communication and problem-solving skills. There must be immediate opportunities available for them to use these skills in practical ways right in the job situation itself. Further follow-up action of some kind is necessary to serve as positive reenforcement to the employees.

12. Quality of work life efforts should not be thought of as a "program" with a finite ending. There must be a built-in momentum that is dynamic, on-going, and that can continue regardless of changes in the personnel in the organization. Once employees come to believe that they can participate and do in fact become involved in solving problems, the process gains a momentum of its own.

There is an implied warning here. Management may have the *formal* power to drop quality of work life efforts summarily. Union officers may have the *political* power to scuttle such efforts. Both would be acting at their peril for, under quality of work life, the workers will have gained a unique power to influence substantially the quality of their own lives at work. To them there is no turning back.

QUALITY OF WORK LIFE 27 YEARS AGO

"If a man spends at least a third of his life in direct contact with a mass production environment, why shouldn't we consider as important (to him and to society) the hours of living time he spends inside the factory—as important and valuable, for example, as the product he produces which is consumed outside the factory? We talk of a high standard of living, but frequently mean a high standard of consumption. Man consumes in his leisure, but fulfills himself not only in his leisure but in his work. Is our mass production work environment making such fulfillment impossible?"

"We suggest that the sense of becoming de-personalized, of becoming anonymous as against remaining one's self, is for those who feel it a psychologically more disturbing result of the work environment than either the boredom or tension that arise from repetitive of mechanically paced work.—If we are to 'do something about' de-personalization, the first step is to understand it."

"Throughout this study both union and management agreed with the authors that the basic problems to be explored were not those connected with a particular plant, industry or corperation. Rather they were problems related to basic technological and organizational trends in modern industry. *Since these problems exist, let's get all the facts we can. In time we shall be able to solve them"* [Original italics].

"[Worker] suggestions, direct or implied, were within the framework of their own personal plant experience.—One of the most striking findings of the study is the psychological importance of even minute changes in his job experience."

"If it were recognized by both groups (management and labor) that they had much of a mutual interest to tell each other about the assembly of automobiles and about Plant X as a production team, something of great value to human relations might accrue."—*Excerpts from: Charles R. Walker and Robert H. Guest, The Man on the Assembly Line (Cambridge: Harvard University Press, 1952, republished by Arno Press, Inc., New York, 1979).*

The CHAIRMAN. There is no one more innovative or more intelligent in the Congress, in my judgment. It is a welcome contribution. I will defer my questions.

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Senator JAVITS. One or two important points?

The CHAIRMAN. Senator Riegle?

Senator RIEGLE. Just one. I recognize the pressure on everybody's time. I gather what you are saying—I think this is a useful recommendation and the committee ought to consider it carefully. As one member, I will do so.

To the larger question of the Chrysler situation and the need to endeavor to keep this company going, had you expressed on opinion on that prior to the time I came into the room? Am I to infer that essentially you feel that that is important? You would like to see something along the lines you suggested be incorporated in the plan?

Senator JAVITS. Not only would I like to see it, but I think it is essential that you incorporate some new idea of this kind in the plan, especially in the automobile business, which is the leading business in our country from the point of view of innovation and so on.

But as to Chrysler itself, I voted for the Lockheed loan. I would like to be able to vote for the Chrysler loan, if I can. It would have to satisfy the same test I had on Lockheed. That is, I thought it required national interest criteria, and those criteria were two: One, the competition in the automobile business; and, two, the impact upon the general economy of a failure of Chrysler or bankers. They may not necessarily close their doors. I think Senator Proxmire is right about that. But the fact that it has gone down the drain in a business sense will have a serious impact on our economy.

Those are my two considerations. And then, of course, the conditions, which will be that it really can pull out. That is what I saw in Lockheed, the ability to pull out, and it did pull out.

I don't know whether that is the outcome of this or not.

The CHAIRMAN. Thank you so much, Senator Javits. We very much appreciate it.

Congressman Hillis, you are as patient as Job. Go ahead.

Mr. HILLIS. Thank you.

I want to begin also by complimenting and congratulating you on holding the hearings. I think they are important and I particularly appreciate the opportunity. You have had the courtesy to listen to we who come over here from the House of Representatives to talk about this matter.

I might begin by saying my home is Kokomo, Ind. I think that says a lot right there, in view of the situation that faces Chrysler Corp.

I was sitting in the audience when Senator Bayh testified, and I will not go over his statistics except to say that I found them to be accurate. I think he was exactly correct on the number of employees that are involved in the manufacture of automatic transmissions and transaxials in my home community, the number of employees laid off, and the high unemployment rate.

I think that is just the beginning, Mr. Chairman, for the Midwest and perhaps across a good part of the country, if Chrysler should

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fail. Chrysler, in the industry, is known as a highly leveraged company, that is to say not particularly well integrated or highly integrated in the manufacturing of parts that go into its vehicles.

For example, Ford Motor Co. up until a few years ago, at least when I was familiar with them, manufactured about half of their own steel, a good deal of their own glass, a great percentage, if not all, of their own paint, plus all of the other things you need to put together to make an automobile.

Chrysler does not do that. They have literally hundreds, if not thousands, of small suppliers all over the central part of the country, the eastern part, in fact all over the country, as far as I know. A great number of congressional districts and States will be affected by a Chrysler failure, and that is the point I want to make here. It is not only the parent corporation. We are going to be faced with the problems of the small business person as well.

THOUSANDS OF LOANS TO SMALL BUSINESSES

There has been a lot of talk this morning about the corporate welfare and the bailout of the big corporations. We only have to look back to the 1930's and since then, when there was a change of philosophy, perhaps, in the Government in the assistance to the business community, to see such things as the Reconstruction Finance Corporation, which came out of the depths of the Depression to aid the small business and intermediate size business. It was transferred into the Small Business Administration during the Eisenhower years, which made thousands of loans to small businesses, not only to start them but to assist them.

And so I don't think you can say that we are helping Mister Big and we have never done anything for Mister Small. I don't believe that is the case at all.

The point was made that this somehow upsets the priority in the business community. People who go to the bank and want to borrow money may not be able to get it because all of it is borrowed by Chrysler. That philosophy strikes me as probably being accurate if we were in an economy at this time which was fully loaned out, that all of the dollars available through commercial credit channels were currently engaged or applications were pending for the engagement. But I don't believe that is the situation of the economy today.

Now, the interest rates are high. They are very high. This is a different matter. As established by the Federal Reserve Board, the rates are 15 to 16 percent. This has had the effect of contracting the debt of the Nation and bringing their loans back into the banks. I think by the time this transaction is concluded, the Chrysler transaction, if it is concluded, there should be plenty of lendable funds available to qualify for a Chrysler loan. But that would not take credit away from anyone else who needs it. That is a point, I think, that should be considered. Adequate safeguards should be considered.

I listened to your questions to Senator Bayh this morning about the attitude of our Governor. Frankly, I am of the same political persuasion as the Governor, and I didn't like his proposal or his attitude on this issue. We agree on many things, but not this. I

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think it would be reasonable to require in the legislation authorizing Federal loan guarantees for Chrysler State participation. I think we are all in this together and certainly can address the problems across the entire level of governmental structure. Economic development administration could be used. There are lots of things we could look at here.

I voted, too, for the Lockheed loan. I note with great interest one of the problems that came up in the Lockheed situation was that their engine supplier, Rolls-Royce, went into bankruptcy, and they suddenly found themselves having to pay a lot more money for that engine than they had contracted for originally for the L–1011. This pushed them to bankruptcy, and the loan guarantees avoided that.

But in this issue of U.S. News & World Report, there is quite a number of articles on the airline industry. It is interesting to note that the L–1011 is characterized in that issue as being "tomorrow's airplane today," that it is in service, it is very fuel efficient, it carries a high number of passengers, it is the type that is very competitive. And I think we can say that we as a country in the airline industry and in the aerospace manufacturing, we would have lost a very important ingredient if Lockheed had failed.

FUTURE IN SMALL, FUEL-EFFICIENT CARS

Now, what happens if Chrysler fails? As I see this thing, first of all, the future for Chrysler is in the small, fuel-efficient car. They have that in the Omni and the Horizon. The only problem is they are limited to 300,000 engines from VW. If they could make 500,000 engines, they could sell every one of those vehicles, and they wouldn't be here today with this problem.

Now, if that car goes out and the 300,000 Omnis and Horizons are no longer produced in this country, who would pick up that share of the market? In my opinion, there wouldn't be enough X-cars made by General Motors. Ford Motor Co. isn't offering anything that is competitive in the front-wheel drive in the same fuel-economy ranges, and the market will go to foreign manufacturers of small front-wheel drive vehicles—Toyotas, Datsuns, Volkswagens, just to name a few. It has the effect or impact of diluting further the American industrial effort.

Now, why does Chrysler need this money at this time? Over the years they have been competitive. The automotive picture in the last few years has changed rapidly. One year the Aspen and Volare type vehicle, the Fairmount was sought after; it was very high in sales figures. The next year the public interest changes to something else. Right now it is on the small 4-wheel front-drive. Part of this money is needed to finish the transaxial in Kokomo. That is under work and going up, so they can manufacture it there. Chrysler has plans to come next year with an intermediate car that would be very competitive with the X-car.

The point I am making is that I think they can stay competitive if they can keep the financial flow that is needed. They have good management. Mr. Iacocca comes from a long background in the automotive industry that is sales oriented. He was very successful at Ford. He brought a lot of key people in from Ford. I think they

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could do the job. What they need is the chance to do it, and, frankly, I don't think they are going to make it without this aid. I don't see where it is much different from the Lockheed situation. And we were successful there. I think we will be successful here.

There is one other point I would close on, and it is perhaps a little of "why are we here today." And part of that is we have set national goals in environment, safety, economy that have been difficult and expensive to meet. I once heard the chairman of the board of General Motors say that it cost General Motors about $1 billion a year to comply and meet and report on all of these Government requirements. General Motors has been successful. They have a lot more units to phase that cost over, to spread it out, and it costs them about $320 a car, I think was the figure he quoted.

Chrysler's production isn't anything like that. The figures they give is over $600 a car. That is another thing that has brought the problem about. We have two ways to go: we can say we just canceled all of those requirements for Chrysler. I don't think that would be wise at all. First of all, I doubt if it would help them much by the time they felt any benefit from that kind of relief, they would be out of business. Second, it goes contrary to national goals that I think all of us agree are important, in pollution and certainly in vehicle economy and vehicle safety.

It is much the better way, to me, to keep them competitive through the loan guarantees than it is to turn the clock back even if temporarily on some of these other matters.

With that, I will conclude. Thank you very much for the opportunity to testify.

[Prepared statement of Congressman Hillis follows:]

STATEMENT OF CONGRESSMAN ELWOOD H. HILLIS

Mr. Chairman, the question of whether or not to grant Federal assistance to the Chrysler Corporation is very serious. We must carefully consider all aspects of this question. We must be sure that such a step will not adversely affect our economic system. We must also be sure that federal assistance is used only as a last resort.

Direct Federal assistance to a troubled company is a serious issue, the consequences of which must be reviewed carefully. We must be aware of the dangers and benefits of the federal government granting assistance to a company to prevent bankruptcy. After all, the preservation of our economic system must receive high priority.

Like most Americans, I am a strong believer in, and supporter of, the free enterprise system. However, we do not have the true or pure free enterprise system in the United States—particularly in cases where Federal regulations intervene in the policy decisions of private companies. There are numerous industries where Federal intervention has weakened the essence of the free enterprise system, that is, competition to such a point that the normal checks and balances which allow a system to operate no longer do so adequately.

The automotive industry, while not as regulated as some other industries, has had its product line completely revamped by Federal energy, emission, and safety standards within the last five years. While these regulations are unique to the automotive industry, other federal regulations are not.

Like all U.S. industries, the automotive industry has had to comply with Federal regulations such as OSHA and environmental emission standards on manufacturing plants as opposed to the car itself. There are also thousands of other Federal programs many of which require forms to be filled out which cost American industries millions of man-hours and billions of dollars each year.

Chrysler estimates that research, development, and retooling costs needed to meet Federal safety, pollution, and fuel-efficiency standards will cost the U.S. auto industry $80 billion over the next seven years. The total effect of all these regulations has reduced the amount of competitiveness in the auto industry. The fiscal impact of

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Federal regulations on larger companies is less per unit of manufactured item than on smaller companies. The cost of Federal Regulations per car for General Motors is $340. The cost of federal regulations per car for Chrysler is $620—almost twice as much. That $280 makes a significant difference to the consumer.

I do not feel that certain economic assistance from the U.S. federal government to troubled domestic corporations will necessarily undermine, weaken, or threaten our economic system. A pure free enterprise system simply does not exist in the United States today. We cannot, therefore, expect that system to provide all the answers to a particular industry's or company's financial problems. At times, the answer must come from outside the free enterprise system.

I believe the question of precedent, particularly with loan guarantees, is a moot point. The Federal government already has established precedents for assisting private industries, including the automotive industry, by providing assistance to American Motors in the form of a tax break in 1967. The assistance given to Lockheed in 1971, while often cited as a precedent, in reality was not. Long before 1971, there were Federal programs designed to assist private businesses, particularly the smaller ones. There are literally hundreds of Federal programs which through one mechanism or another intervene into the free enterprise system and provide aid to private companies. Loan guarantees have become commonplace and have proven to be effective.

Chrysler has made many significant efforts to improve its financial situation. The corporation has sold many of its overseas assets; corporate executives have reduced their salaries; new management policies have been enacted; and new top level personnel have been hired. Chrysler has made a good faith effort to solve its own problems. The policies which contributed to Chrysler's troubles, such as the "sale bank" concept which is the practice of manufacturing cars prior to their being ordered, have been eliminated.

While Chrysler has programs to improve its market penetration in the 1980's, it must continue to invest in modernization efforts and improve the emissions and fuel economy of its products to meet Federal regulations. These steps will cost the corporation millions of dollars which it simply does not have, and which it will not be able to obtain without federal assistance.

The Chrysler Corporation employs 131,000 people and thousands more are dependent on it indirectly for their livelihood. While the loss of Chrysler jobs alone would be significant, consider the additional thousands of employees of smaller companies which are totally dependent upon Chrysler as a purchaser of their products. The Indiana Department of Commerce has identified 105 independent companies which sell their products to automotive manufacturers. These companies employ in the neighborhood of 55,000 people. Since Chrysler is not a highly integrated corporation, it must rely heavily on small independent companies for many of its component parts. These companies cannot sell their products to GM or Ford since both of those corporations are highly integrated. The human and financial impact of Chrysler's failure would be tremendous.

It is impossible for anyone to be able to accurately calculate the impact of a Chrysler shutdown. However, all indications are that such a situation would have severe and long lasting adverse effects on our economy.

The effects of a Chrysler failure on the automotive industry would be dramatic. Without Chrysler, Ford and GM would unquestionably be faced with anti-trust actions by the federal government. Since 1976, the Federal Trade Commission has been studying the competitive situation in the auto industry. Some anti-trust action against GM is already possible, even without Chrysler failing.

There are organizations which oppose federal assistance to Chrysler on the grounds that without the corporation, there is no way GM can survive an anti-trust action. The Washington Post reported on August 2 that the potential for anti-trust action against GM was one reason Ralph Nader cited for his opposition to any government assistance to Chrysler.

We cannot be blind to the fact that there are people in this country who simply oppose large corporations on principle. However, there are industries, and the automotive industry is one of them, where the capital of large corporations is needed to meet the problems of the future. The problems of meeting environmental, safety, and efficiency standards are monumental. It would be impossible to disassemble GM or Ford without hampering their capabilities to improve emissions, safety, and efficiency. The pure turmoil of the situation would make long-term planning impossible. The result of such actions would be to force our domestic auto industry into a sharp decline while foreign competitors, with the assistance of their governments, take an increasing portion of the U.S. auto market.

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In 1978, U.S. imports of passenger cars exceeded exports by $10.5 billion. Not only would imports pick up a portion of Chrysler's U.S. market, but Chrysler exports would also be lost. Thus our balance of trade would be hurt by the increased imports and decreased exports.

After reviewing the Chrysler situation, I do not see any available alternatives to federal assistance to insure the economic stability of the corporation. Chrysler is in the middle of a massive reorganization and rebuilding program. That program will increase Chrysler's penetration into the marketplace starting in 1981. It must be completed and successful for Chrysler to survive.

The Administration has proposed that Chrysler receive $1.5 billion in loan guarantees, coupled with a commitment that Chrysler first raise the same amount through its normal line of credit. This proposal seems to be reasonable and has received support from both Lee Iacocca, the Chairman of the Board of Chrysler, and Douglas Fraser of the UAW. Although the House and Senate must review the Administration proposal carefully, I am hopeful that it will be enacted.

Federal aid to Chrysler is the philosophically correct step. It is in the best interest of the Nation. It is vital that Chrysler not go bankrupt if we are to avoid severe economic disruptions and a possible deterioration of the entire auto industry.

The CHAIRMAN. Thank you, Mr. Hillis.

Mr. Gramm, you are a professional economist?

Mr. GRAMM. Yes, I am, sir.

The CHAIRMAN. When you testified before this committee before, as I say, you made a very strong impression of your competence and your understanding of the economic system and your great experience in studying it.

You argue that taking capital away from others is one of the principal perverse impacts of this proposal, that is you guarantee $1.5 billion for Chrylser, it means $1.5 billion that others may not get, or if they get it they would have to pay a higher price in interest.

Mr. GRAMM. What I was basically arguing——

The CHAIRMAN. Let me ask you this: Isn't this de minimis? We just passed a bill for an $88 billion energy program to be—for fuel, synthetic fuels. We didn't go with quite the $88 billion, but the initial down payment would be about $20 billion and then we would move undoubtedly into the area, in my judgment, of $40, $50, $60, $80, billion. Won't that have a far, far greater impact on the credit markets over the next 10 years than this $1.5 billion guarantee?

Mr. GRAMM. I don't think there is any question that in terms of the aggregate impact it will.

The CHAIRMAN. In the economy in which we have a trillion dollars, or at least many hundreds of billions in credit, why would $1.5 billion——

Mr. GRAMM. We need to look at gross domestic investment, which is in the range of $200 million. The point I am making is that we are diverting with this guarantee—and I haven't talked about precedents here; there have been precedents in terms of loan guarantees. What I am talking about is in assessing the interest of the American people. We need to look at the allocation of $1.5 billion of capital into Chrysler as compared to where that $1.5 billion will go if it does not go to Chrysler.

It seems to me that in the area of economic growth, a very strong case can be made against this allocation. And in terms of unemployment, I think it is important that we not simply look at a static concept of so many people who will be laid off if Chrysler

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should go under. An assumption that I don't buy, even without the bailout.

THREE MILLION NEW JOBS

I think it is important to note that 3 million people take new jobs every year in our economy and that this $1.5 billion will be invested elsewhere. And following the logic that private sector is willing to make this investment, the chances are very good that this investment will create long-term jobs, jobs with higher productivity.

And finally—and it is an area that I have in my testimony that I didn't get into—I think a very strong case can be made that the unemployment impact by simply looking at the inventory concept of employment is greatly overstated. About half of all of Chrysler's sales aren't really subject to foreign competition. I think it is very doubtful that Volkswagen is simply going to eat these 300,000 engines a year. I think they will probably use them in domestic production of Rabbits.

The CHAIRMAN. Isn't the principal credit effect likely to be down the way if you are going to bail out Chrysler? For instance? I would agree wholeheartedly with Mr. Cheney, who indicated there isn't really any logical basis if you bail out Chrysler, any big firm will get a loan guarantee. I don't see how the Congress or any President can say "No," especially in an election year, but say "No" any other time.

Mr. GRAMM. I think that is true.

The CHAIRMAN. A big company that has 50,000—100,000 people working for it.

Mr. GRAMM. I think that's true. And I think, second, if Chrysler follows the pattern that we have seen elsewhere it will continue to climb by not making the adjustments that the market would require. I don't think anybody thinks that if States put up money, if small component producers put up money, that we are going to allow that money to go under. I think there is going to be an immense political pressure to provide a second-round bailout if that is called for. I hope it is not.

The CHAIRMAN. I agree with that.

I would like to ask, Mr. Cheney, I thought your analysis was extremely interesting and logical. I am wondering, however, if you couldn't go a little further and say this is going to do something to the quality of advice and pressure, if you will, for efficiency, that creditors who are in trouble and big, get from their bankers. Now, if a creditor goes to his banker and it is a big corporation, he wants to borrow money, the bankers will say, "You have got to cut out your losers. You have got to cut down on your spending. You have got to do a far more efficient job than you have in the past."

On the other hand, if that borrower can get bailed out, it is a different ball game. Why go through all of the pain and trouble and anguish of forcing some very unpleasant actions to be taken by the corporation when the corporation can just turn to Washington and get bailed out?

Mr. CHENEY. I would agree, Mr. Chairman. I think that that is the precedent-setting aspect of this particular development. We now find the Lockheed loan, for example, cited as "We have al-

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ready done it. We need not worry about it." I think it is a new departure; it is a new style of operation.

The CHAIRMAN. The Lockheed loan, that was our biggest defense contract. Two-thirds of what they sold, they sold to the Federal Government. You could make a strong case—I voted against it—but you could make a strong case that it would have a very seriously adverse effect on our defense. You can't make that with Chrysler.

Mr. CHENEY. Correct. And some would suggest that we were successful in bailing out Lockheed in part because they later were able to obtain a large number of defense contracts. That obviously isn't the case with Chrysler, where 5 percent of the total product is defense related.

I am very much concerned with the basic fundamental principle: That we are in effect saying that the Fortune 500, as it is now constituted, the top corporations in America, are forever more going to be exactly those companies, that those resources are going to be continuing to be applied to making those products, we are going to guarantee jobs in those companies, rather than continue the notion that we pursued in the past, the basic fundamental principle that we have a changing, dynamic economy, that that does indeed involve some pain for investors and employees.

MARKETPLACE WILL REALLOCATE RESOURCES

But ultimately, as Mr. Gramm has pointed out, the marketplace will reallocate those resources that are currently involved in what is a losing proposition, the Chrysler Corp., to other activities that the marketplace deems more worthy, and that will indeed ultimately lead long-term to a more productive, profitable, stronger economy than if we continue the misinvestment of resources, the misallocation of resources in a losing proposition.

The CHAIRMAN. You talk about a wage freeze as being something that would really make a contribution from labor other than the contribution that they have suggested now, of deferring some of their pay increase.

Fred Kahn threw a bombshell into the works, as you recall, on Saturday, when he said this was a violation of the standards and that it was outrageous and so forth. However, he followed that up with a letter to Congressman Blanchard, in which he said he is all for the loan guarantee and that they should go ahead, go ahead with this outrageous conduct. Or at least he couldn't come up with any firm recommendation as to what we should do in order to correct it.

When you called for a wage freeze, did you mean that the people who work for Chrysler should get no increase as long as the guarantee was out, or for 1 or 2 years? What did you have in mind?

Mr. CHENEY. My suggestion specifically was, given Mr. Kahn's original comment, which I thought was valid and probably most accurately reflected his views, that as long as there is a significant wage increase in this year's contract over and above what the status quo was before they negotiated that contract, it seems to me in the first place Chrysler ought to look at changes and modifications in the way they do business, perhaps including an agreement

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with the UAW that they would not take any wage increase this year, that that offers an alternative situation where they have to come to the Government and ask for a loan guarantee; that is to say, as you mentioned in your original comments, Mr. Chairman, as long as the option exists for them to come to the Federal Government and get a loan guarantee, get bailed out, they will not do those things internally within the company that would lead to better management of the company and lead to more profitable operations.

One of the things they could pursue would be a situation where the wage earners and employees of Chrysler agreed to a wage freeze until such time as they worked themselves out of the difficulty.

The CHAIRMAN. I would like to ask Mr. Brodhead. Mr. Brodhead, you gave a long list and a very impressive list of areas where we provide guarantees: agribusiness, shipping, railroads, airlines, petroleum, housing, health care, aerospace, and so forth. I think that Mr. Cheney made the distinction—I would like you to speak to this—that he is not talking about generic assistance, and we concede that there has been assistance there, but assistance to a specific company. There have been some exceptions. Lockheed was one. There may have been a few others. But isn't it true that there are very few precedents for this kind of action for a specific concern that was in difficulty? There are some, I admit, but very few.

Mr. BRODHEAD. That may or may not be the case. We worked on legislation that was for the benefit of American Motors. Of course, the Lockheed thing, and others. I don't know in what way that is relevant. It seems to me we are talking about an enterprise——

The CHAIRMAN. My problem is this: Is it relevant in the sense that we have generally not followed a policy of helping a failing company not to fail, a specific failing company not to fail? If we reverse that and follow a policy of bailing out firms, and once we drop the notion of size there is no end to it, it would seem to me we are going down a pretty dangerous path with respect to free enterprise.

Mr. BRODHEAD. I respect your opinion on that, but I would say we have been going down this path from the founding of our Republic, of government involvement in business and seeing that businesses are successful and that the Government is repeatedly making decisions regarding the allocation of capital and supporting of various types of business enterprises.

The CHAIRMAN. Types, but not particular businesses.

Mr. BRODHEAD. Two examples. One would be American Motors and the other is Lockheed.

The CHAIRMAN. Those examples are right, and one is particularly telling with me, but I am just wondering——

Mr. BRODHEAD. We had railroad legislation just the other day. I am reminded by my colleague Mr. Hillis that would be another example. Those are three that immediately come to mind. I am sure we can find others.

Mr. CHENEY. You mentioned the railroads. Of course, I wasn't here, since I am a freshman Member, but I looked at the Amtrak situation, where we have in fact gotten Government involved in the managing aspects, and now our decisions about rail service

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aren't made on the basis of what is efficient and what is profitable, what is economic. They are made on the basis of what is political. Nobody wants to see their particular route challenged. We have shifted the decisionmaking process for railroads into a situation where we now are making political as opposed to economic decisions.

Mr. BRODHEAD. I think Amtrak is an example of what we are talking about. What essentially we did with Amtrak was the railroads were—had this passenger business which they couldn't make ends meet, and we wanted to see the railroad industry survive. So what the Government did was took that passenger enterprise off their hands and allowed them to concentrate on more profitable aspects of their business. And the Government just took that over, which really, traditionally, historically, had been a responsibility of enterprise, and probably should have remained so.

Senator RIEGLE. I think this is a good point for us to continue with what we have been discussing.

I think the distinction that some have tried to draw between generic aid and specific company aid is really a bogus issue. Nowhere is it clearer than as you yourself have acknowledged, and Congressman Brodhead has acknowledged with respect to the automobile industry. Here we have a case which Congressman Cheney I hope will have a chance before he leaves to reflect on the fact that we have already taken these very steps with respect to American Motors, in terms of Government coming forward to assist. And I didn't hear any objections——

The CHAIRMAN. There is a vote on the House side.

AMERICAN MOTORS PRECEDENT SETTING

Senator RIEGLE. I understand there is, but in any event I think it would be important that he be asked to indicate for the record if he would have opposed that action, because clearly that set the precedent. This is not the precedent-setting situation. I think it is important to nail it down so that nobody is confused about it. The actions that were taken in the case of American Motors, which is directly in the industry sector that we are talking about, are what set the precedent.

As a matter of fact, the administration that Congressman Cheney was a part of supported some of these very things and helped sign them into law. I am speaking, for example, about the waivers of the Clean Air Act; about the Justice Department waiver to buy technology, rather than having to pay for it; the Small Business designation, which the Government has given preferentially to American Motors; the GSA edicts to agencies to buy American Motor vehicles; the Post Office rewriting of specifications to favor AMC.

I know as an economist these would frustrate you some, Mr. Gramm, because they are targeted kinds of assistance, and especially, the specific tax loss carry-back, which was very finely targeted. I think in fairness, Mr. Chairman, I would hope that the committee could acknowledge that we have very specific single instances in the auto industry——

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The CHAIRMAN. I vigorously disagree with that. I don't consider that——

Senator RIEGLE. It doesn't disagree with the facts.

The CHAIRMAN. I disagree wholly on the facts.

Senator RIEGLE. We didn't do these things for American Motors?

The CHAIRMAN. The $20 million—the carry-back and carry-forward, No. 1; and No. 2, there were some exemptions, which I am perfectly willing to provide for Chrysler. We are discussing that, perfectly willing to provide that for Chrysler but there was no guarantee, there was none of this—not only $1.5 billion, there wasn't even $50 million guarantee for American Motors. None of that.

Senator RIEGLE. Let me just say——

The CHAIRMAN. Mr. Brodhead will miss his vote.

Mr. BRODHEAD. If the Committee is through with me.

Senator RIEGLE. I don't know that it pays to keep you, but I am going to go ahead and use my time at least to make some comments with respect to things the other members said.

The CHAIRMAN. You better go vote.

Senator RIEGLE. I appreciate the testimony of the gentleman from Michigan.

Let me say, Mr. Chairman, because we have to talk this out if nobody else does, that with respect to the clean air emissions waivers that I just cited, that Chrysler estimates that had they gotten the same relief at the same time, which they were denied, it would have been worth $600 million to them. And now the money has been spent and they can't recoup it. So for you or anybody else to say, I am now prepared, years later, to do the same things for Chrysler, really doesn't have the same practical effect that it had for American Motors.

I think the important thing is—and I would really like to persuade you on this point, because you have been able to see the merit in the other case, and I have seen the merit in the other case and we have taken those steps and we have helped the first company in the auto industry that got in trouble through its difficulties and they are now on a strong footing and they are making money—they are profitable.

I think that has been good for the country, and I am prepared to support that kind of initiative again if it is necessary. I think it is quite artificial to erect a differentiation between what we have already done in that case and the present case of Chrysler, where the penalty to Chrysler apparently is that they are larger. In other words, the fact that American Motors was smaller appears to have made them more deserving.

I think it is important for the record to show that there is another case history that is, in fact, not generic but very specific. Specific changes in Federal law to accommodate a firm in the automobile industry to enable them to deal with the very same problems that have created so much of Chrysler's difficulty.

The CHAIRMAN. The problems are the same.

Senator RIEGLE. If I may finish. I want to try to get the concept on the record, and then I would be happy to yield. I think it is important to discuss it.

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The fact is that we have a historic record where the Federal Government has taken these initiatives in a specific case of a specific company in a contemporary period in the automobile industry. Now Chrysler comes along with exactly the same problems. They are coming along with the same problems, and of course, the implications are larger because the company is larger. But I think there really is no meaningful way to erect a philosophic distinction or even a practical distinction between the assistance that we wisely provided for one automobile company and a second automobile company that comes along and needs the same help.

Now, related to that we have a situation where our witnesses, who of course have had to leave for a vote—and particularly Mr. Gramm made considerable reference to the problem of the automobile industry in England. What he did not talk about, I might say, is the automobile industry in Japan, the automobile industry in France, the automobile industry in Germany, that are the major illustrations of what is causing our competitive problem and our balance of payments problem.

I think probably most members who have been here today, whatever side they have been on, would say that Volkswagen, on the surface at least, appears to be a relatively successful and effective company. I don't think very many people know that 40 percent of Volkswagen is owned by the German Government. And I know that may curl the hair of some in the room, but nonetheless it is time.

In the case of Japan, the level of cooperation that has existed between government and business in the auto industry in Japan—the list is almost a page long in terms of help with R. & D. expenditures, controls on imports from other countries, commodity taxes on large cars, forcing the consolidation and the allocation of credit through the banking system to the automobile industry in Japan at times that it needed it, and so forth.

LIFE AND DEATH COMPETITION

So we have a situation where we are not comparing things. Unless we understand what has been taking place in Japan and Germany, and see that we are in a direct, almost a life-and-death competition with them, and respond accordingly, if we don't start to synchronize our national policies, we play directly into their hands. And I can't, for example, believe that the chairman or anybody else on the committee wants to see our trade deficit of $7 billion in motor vehicles go higher.

I thought Congressman Hillis made a profound point when he said, here we are now, halfway through the job of reconstructing and modernizing automobile facilities within the Chrysler Corp., and now we are in a situation of jeopardy, where suddenly all of that is going to be discontinued. We are not going to finish it. We are not going to put ourselves into a position to fight off that competitive pressure from the Japanese and the Germans.

Rather, we are going to step back, let this whole situation fall apart, and assume that we are going to come out stronger as a result of that. Well, there is absolutely no sense to that, from a national point of view. We have to put ourselves on a

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stronger competitive footing with these foreign competitors. All the numbers show us that. That is, in fact, one of the reasons we helped American Motors, and why we probably ought to again—because, as some know, they are back here again asking for help.

But in the case of Chrysler its size and the fact that we are halfway through constructing new facilities that can provide another 400,000 of national capacity to produce the four-cylinder fuel efficient car. This is a national gain that is essential for us to complete. And not to recognize the strategic economic value of that—and to cloak it with lots of philosophy about the notion that Government ought not to assist and adjust its policies in a cooperative way with the private sector—just flies in the face of commonsense.

Now, finally, Congressman Gramm also indicated that he was concerned about the drawing, the $100 million of capital out of the economy, and he thought instead that it might be better to take that money and use it to generate jobs elsewhere. I think it would be important for the committee staff, in an unbiased way, to present to the committee an illustration of how many jobs we can create in the United States by spending $1.5 billion.

Whether you want to use the standard models of spending $1.5 billion through Government channels, or whether you want to spend $1.5 billion through private channels, there is absolutely no way that spending that kind of money, diverting the capital and spending it in different forms, that we can even come close to generating the 600,000 jobs that are in jeopardy if we let the Chrysler company go into bankruptcy.

So from the point of view of efficiency of the use of capital to create jobs, which I think is important, the most efficient way for us to use $1.5 billion of capital at this point is to preserve the 600,000 jobs that are out there today. The cost of keeping those jobs is a tiny fraction of what the true cost would be of scrapping those jobs and starting over to try to create 600,000 new jobs.

I would only add, again, for us to play into the hands of the Japanese and into the hands of the Germans and the French at a time when our country is vulnerable—we are trying to adjust to this energy shock, which is now here as a reality in full force—to penalize our country and to cause our country to undergo more damage and more hardship, rather than to respond intelligently to construct a transition plan to get us over this hump and on a stronger footing just makes no sense at all.

I hope that even though many of our colleagues are away at the moment, that they will have a chance to weigh and reflect on these arguments. They are at the heart of the decision that we are faced with and will have to reach.

The CHAIRMAN. Senator Riegle, I honor you for fighting for your State, fighting for the thousands of employees who are within your State. You have every reason and responsibility for doing that. American Motors, at the time they asked for some assistance, was the largest employer in Wisconsin. I am a Senator from Wisconsin. I felt it was my duty to do my best to assist American Motors in any way I could, and I did.

Now, what did we do? We did two things. No. 1, we provided for a tax break that would apply to any firm of that size, a carry-back

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carry-forward tax provision that amounted to $20 million, not $1.5 billion, but about 1 percent of $1.5 billion. But it was help.

In the second place, we did provide for some exemptions from the regulations imposed in the automobile industry for American Motors and for firms of a certain size, and so on. We tried to make those generic. They were intended, in the first place, for American Motors, but they were generic in the sense that any firm of that size or less would qualify. Now, I don't make any apologies for doing my best for the people in my State.

I think I have a responsibility to do so. Some of the positions I have taken for the dairy farmer or for the beer industry may have seemed to some people to be a little contradictory. I do that because I think it is perfectly proper for a U.S. Senator to recognize that his State has interests and they have a right to have somebody make an argument for their interest on the floor of the Senate.

I would have been astonished and astounded if you had come in as one of the leading opponents of the Chrysler bailout. Nobody expected you to do that. It is predictable what you would do under these circumstances. I think it is also predictable what the Congressman from Indiana would do, and for that matter, what the other Congressmen—Congressman Brodhead from Michigan would do. And I think it is right.

I don't think it is wrong; I think it is right. The argument ought to be made very vigorously, as you are making it, but I think for you, then, to shout that it is inconsistent for me on the one hand to support the people in my State who work for American Motors and then not to take exactly the same position for everybody else in the country is, maybe, a good debating point. But it is about as politically unrealistic as anything I can think of.

Senator RIEGLE. I appreciate the directness and forthrightness of what you have just said. My concern is that so much of the argument against Chrysler is put in philosophic terms; that this is somehow a new departure from free enterprise principles; that it somehow establishes new precedents for Government. All I am saying here is that we have a long, long list of other situations where we have responded in exactly the net form and effect as we are talking about here. And the most direct one that is useful to us is the fact that we responded in the case of American Motors.

The CHAIRMAN. It is the only case in which a company has been singled out by name for assistance—in this case, assistance of $1.5 billion. That was not done with American Motors.

Senator RIEGLE. I have to indicate that that is not correct. Let me give you two specific instances, so that you are aware of the change in law that related directly to American Motors.

The CHAIRMAN. No. Any company of the same size.

DENIED PURCHASE OF TECHNOLOGY

Senator RIEGLE. But no other company in the industry. First was the Justice Department waiver to allow American Motors to buy technology from General Motors. This is back some years ago when they didn't have the money to invent the technology. Chrysler

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made the same request, and they were turned down. They were told no.

The CHAIRMAN. They are making it now.

Senator RIEGLE. The point is, they were told they could not have the waiver and only American Motors was given it, and it was given it by name and specifically. Another example is in terms of the NO_x waiver from the Clean Air Act of 1977, which applies to the 1981-82 cars which was also given to American Motors but was denied Chrysler. AMC asked for it specifically.

Some of us tried to get it for Chrysler because we could foresee the problem. Chrysler now estimates that the failure to get that cost them $600 million.

Now you might be prepared to argue either way today that they should or should not have gotten the waiver at that time.

The CHAIRMAN. They take the entire cost. They assume that none of it was passed on to the consumer. All of those costs are passed on to the consumer.

Now it is true that it is a little harder for Chrysler because they are smaller than General Motors, but anybody who thinks that the cost of those regulations are not paid for by the guy who buys the car believes in the tooth fairy.

It has to be paid for by the consumer, by Chrysler, General Motors, or the stockholders.

Senator RIEGLE. Chrysler has a cash flow problem that threatens to cause them to run out of capital, to continue to invest, and to keep their company going. Part of it is due to the fact that they had to spend $600 million to invent technology that they could have avoided in large part if they had had the same waiver and the treatment that American Motors had gotten, to be able to buy the technology from a stronger company that was in a better position to pay for it.

Let me give you one more, because this is a good one to close on. I think, as you are aware, and I don't know whether people in the room are aware or not, but American Motors is back now and needs a new change in Federal law to release it from other Federal standards or it is going to have to shut down some of its production facilities within the next 12 months. Now they need some relief from a specific statutory Government regulation that has to do with the composition of the car that is built in the United States versus the percentage that is built outside the United States.

They have come to my office to ask for help. I assume they have been to yours because they have been making the rounds. They are tiptoeing at this point because they don't want to have to be caught in a situation where they get a large shadow of the Chrysler problem falling across them.

If the Federal Government tries to examine that question, my mind is open on it.

I think we have to look at American Motors problem today where they need specific legislative relief in exactly the same way we look at the Chrysler problem. I mean, the form of relief may be different, but I think the principle is the same, and I think the bottom line should be the same.

Is it in the national interest, at this point, given this tremendous pressure from foreign competition to keep our domestic companies

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as sound as they can be? I have voted in the past to do that, in the case of one company in your State, and I will continue to do that because I think it makes sense for the whole country, not just for Wisconsin.

And I guess the only point I am making is that I would hope that merits to the country would be—the final justification that we would hang our hat on and not be for something because it is in our State or against it because it is not in our State.

The CHAIRMAN. The committee will stand in recess until 2:30, when Secretary Miller testifies.

[Whereupon, at 1:20 p.m., the hearing was recessed.]

[Reprint of remarks in the Senate on introduction of the legislation follow:]

[From the Congressional Record, Oct. 24, 1979]

S. 1937—CHRYSLER EMERGENCY LOAN GUARANTEE ACT

Mr. RIEGLE. Mr. President, today I am introducing the Chrysler Emergency Loan Guarantee Act with a number of cosponsors.

This bill would provide carefully controlled financial assistance to the Chrysler Corp. I am gratified that several distinguished Senators are joining me as cosponsors today. They include Senators Levin, Nelson, Bayh, Danforth, Eagleton, Mathias, and McGovern.

I intend to introduce the bill late this afternoon, and that list may grow, because there are other Senators who have indicated a great interest in this issue, and I here and now invite all other Senators to consider becoming original cosponsors, and welcome their support and participation.

The bill would further the national interest, first, by modernizing major U.S. factories and converting them to the production of fuel efficient automobiles; second, by preventing a loss of jobs by hundreds of thousands of American workers and a substantial loss of business by thousands of firms; third, by averting a damaging shock to the U.S. economy in a period of growing uncertainty and instability; fourth, by avoiding long-term economic devastation in several large regions and numerous small communities across the country; fifth, by protecting Federal, State, and local governments from huge losses, in revenues and increases in expenditures; and sixth by improving our balance of payments and strengthening the value of the dollar.

Mr. President, for several months now I have been studying the situation of the Chrysler Corp. in great detail. I have consulted financial analysts, legal experts, public officials, automotive executives, car dealers, and autoworkers from many parts of the country. Ever since Chrysler's financial plight came to light in the public, there has been a continuing debate in the press over whether aid to Chrysler was indeed appropriate. We have seen numerous pros and cons stated on the issue by some of our most learned economic and business leaders. What is so troubling about this debate, however, is the fact that we as a country have never been faced with a problem like the present Chrysler situation. In terms of size and potential adverse economic impact—there has never been a problem like Chrysler. We really do not know what might happen if Chrysler went bankrupt. We know the effects would be bad, but we cannot be totally sure when or where the economic trouble would stop.

Through my study of this problem, it has become increasingly clear to me that Federal financial assistance is not only justified, it is needed; it is needed urgently; and it is in the national interest.

PROVISIONS OF THE BILL

Mr. President, the bill I am introducing today would provide loan guarantees to meet the financial needs of the Chrysler Corp. through a tightly controlled program that would target benefits on national objectives and protect the interests of taxpayers.

My bill would create a tripartite board composed of the Secretary of the Treasury as chairman, and the Secretaries of the Departments of Labor and Commerce. The board would have the authority to guarantee loans to the corporation within the guidelines established by the legislation.

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Before providing assistance to Chrysler, the board would have to find that the company has an actual need for loans, that failure to meet this need would adversely affect the economy or employment in the United States or any major region of the United States, that credit is not otherwise available, and that the lender would not make the loans without a Government guarantee.

Guaranteed loans could extend for up to 10 years and bear interest at rates controlled by the board. The board could impose guarantee fees and design other arrangements to compensate the taxpayers for any administrative expenses or risks incurred by the guarantee.

The bill would protect the Government's interest by requiring the full collateralization of any guaranteed loan, the suspension of payments to stockholders and certain lenders, the audit of Chrysler records by GAO and the imposition of other stringent protections. The board could require appropriate managerial and financial reforms of Chrysler before guaranteeing any loan. Moreover, the board would be authorized to take actions necessary to insure that unguaranteed lenders and other parties maintain their current levels of support to the corporation.

The board's authority to extend guarantees would terminate on December 31, 1983. A ceiling on outstanding loan guarantees would be established after the issue of suitable assistance levels is studied in banking committee hearings.

The bill would provide $250 million or 25 percent of the guarantee aid through an employee stock ownership plan (ESOP). ESOP's have been championed by several distinguished Senators, including the majority leader, Senator Byrd, by the chairman of the Finance Committee, Senator Long, and by my colleague on the Banking Committee, Senator Stewart who, recently, announced his intention to introduce employee stock ownership as an amendment to any bill that would involve financial assistance to Chrysler.

A recent study sponsored by Senator Long of 72 ESOP companies showed that in the 3 years after adoption of the ESOP, sales increased by an average of 72 percent, jobs increased 38 percent, sales per employee increased 25 percent, pretax profits increased 157 percent, and Federal taxes paid increased 150 percent.

These are compelling statistics which I believe demostrate that employee stock ownership plans may offer a route by which we can move imaginatively to assist Chrysler.

AN HISTORIC CHALLENGE TO AMERICAN INDUSTRY

Mr. President, I believe that this bill provides a prudent response to the financial problems of the Chrysler Corp. The Senate's decision on this bill is part of our Nation's response to a much larger and unprecedented economic challenge.

An industrial evolution is underway, Mr. President. Between 1978 and 1984, Amercian automobile manufacturers are scheduled to spend the vast sum of $80 billion for new plant and equipment. That amounts annually to a 25-percent real increase in spending over the average of the preceding 7 years. This figure does not include additonal, massive increases in spending for research and development. That high level of spending will continue in good years and in bad because federally mandated standards must be met.

We are witnessing nothing less than the sudden obsolescence and replacement of a major segment of the Nation's industrial base. This unprecedented level of spending must be made if Amercian workers are to produce the fuel efficient cars for which there is a growing demand.

The United States must rapidly make an extraordinary transition from an era of cheap and abundant gasoline and oil supply into an era of scarce and expensive gasoline and oil.

By contrast, the national policies of our major trading partners have long encouraged the development of energy efficient products and production techniques. Moreover, their governments have lent significant support to their own auto companies and other industries by assisting with technological development, providing generous tax credits, imposing protective measures against import competition and maintaining a general climate of cooperation between Government and industry. Until recently, they had to provide this support in order to catch up with Amercian auto makers. These foreign governments concentrated on the small car market and as gasoline became more costly have been able to carve out a 25-percent share of the U.S. auto market. It is now apparent that standard size autos are going to be obsolete and more jobs will be lost to foreign auto makers if we don't improve the level of cooperation between Government and industry.

Now, Mr. President, of course this burden of industrial conversion falls—and must fall—largely on the Nation's private industry and capital markets. I am confident that the private sector has sufficient resources, vigor and imagination to meet the bulk of the challenge.

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However, those of us in Government must understand the stress that is being imposed on industry, and be prepared to respond when the strains threaten to bring down a major component of our capacity and shatter the lives and livelihoods of hundreds of thousands of our fellow citizens. That is what is at stake in Chrysler.

The past failings of Chrylser's former management may have been serious and many. But the Government also bears responsibility for the corporation's present crisis, not only because of our current energy situation but the lack of a coherent national energy strategy and policy. Even those Senators who most strongly favor regulation of the auto industry must admit that hundreds of millions of dollars were drained unecessarily from the auto firms by Federal decisions such as those to mandate ignition interlock systems and to prohibit joint development ventures to meet Federal standards. These are decisions we cannot undo. The capital which was required by those Federal policy decisions is capital which is spent and gone. In fact, as long as a year and a half ago, regulators decided to ignore clear warnings of an impending financial crisis at Chrysler and chose to do nothing to help avoid it.

Mr. BAYH. Will the Senator yield for 30 seconds? I know he is under a time constraint.

Mr. RIEGLE. I yield.

Mr. BAYH. I compliment the Senator from Michigan for the important role he is playing on the Banking and Currency Committee and the leadership he is providing in this area. I feel fortunate with him and the junior Senator from Michigan in a problem that confronts the whole country and not just the State of Michigan and the State of Indiana, though we happen to be No. 1 and No. 2.

This is something that will have an effect on the whole country. I think the way the Senator from Michigan is approaching this will help solve the problem and get us out of this in a way to have a minimum amount of risk to the country. I associate myself with his remarks.

Mr. President, the bill offered today by Senators Riegle and Levin, of which I am a cosponsor, represents an attempt to draw from the best thinking which has been put forward to find a solution to Chrysler's dilemma.

I think it imperative that steps be taken promptly. The impact of a bankruptcy proceeding on Chrysler was described in hearings before the Senate Banking Committee as at best uncertain, but quite possibly disastrous.

The impact on the State of Indiana of a Chrysler shutdown in hardly in doubt. Nearly 15,000 Chrysler employees would be out of work and Indiana would lose $1 billion annually in direct wages and purchases from Chrysler alone and perhaps another $2 billion in indirect losses from jobs which are dependent on Chrysler wages and purchases.

Two cities in Indiana would be hit with an even more devasting impact than the closing would have in Detroit. Fourteen percent of the work force in Kokomo is directly employed by Chrysler and nearly 12 percent of the work force in New Castle, Ind. The Booz, Allen & Hamilton, Inc. report submitted to the Treasury indicates that one-third to 40 percent of all jobs in these two cities are related to Chrysler's business. The entire economy surrounding these cities already feels the impact of the uncertainty caused just by the possibility of a shutdown. Indianapolis and Michigan City would also be substantially affected.

The cost to the Federal Government of a Chrysler failure would not just be in the millions of dollars, it would be in billions of dollars of lost revenues and increased expenditures. This bill is an effort to prevent that loss by guaranteeing loans that financial institutions acting separately would not otherwise make.

Mr. President, I hope that the Congress will act promptly. The Booz, Allen & Hamilton report also warns that Chrysler's funding needs could increase if there are any major delays in obtaining adequate funds. I think this bill represents an attempt to develop a reasonable solution to this problem. I feel certain that as the Banking Committee takes this bill under consideration, it will further develop and refine this legislation. I look forward to working with all the parties involved including Chrysler Corp., the United Auto Workers, and my distinguished colleagues on the Senate Banking Committee.

Mr. RIEGLE. Mr. President, I thank the Senator for his comments and the great help he has given to the efforts to solve this problem.

Mr. President, there are a number of precedents to which we can look.

PRECEDENTS

Fortunately, the Federal Government has considerable experience in providing assistance to important forms of economic activity. And we can build on that experience.

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Congress has already recognized a national interest in helping major domestic industries compete in changing international markets. The fiscal 1978 State-Justice Appropriation Act, for example, authorized EDA to provide up to $550 million in loan guarantees for steel companies. Three objectives were identified. Steel companies would be helped to modernize so that they "could better face foreign competition," to "meet Government mandated environmental standards," and to retain jobs in the U.S. steel industry. All three items relate directly as well, to the auto industry.

Since early 1978, five firms have received a total of $364.6 million in loan guarantees under the program. EDA is considering requests for an additional $160 million to other firms. The administration estimates that the approved guarantees would retain a total of some 54,000 American jobs. It should be noted that Chrysler buys steel from U.S. producers.

The steel industry program is extending about $6,800 in loan guarantees per job retained. Since a Chrysler collapse would cause a loss of 200,000 to 600,000 jobs, $6,800 in loan guarantees per job would justify $1.4 billion to $4.1 billion in guaranteed loans for Chrysler.

The Federal Government has extended financial assistance to thousands of private borrowers for a multitude of purposes. Over $7 billion in loan guarantees is currently outstanding for international security and development assistance. The Agriculture Department now has $54 billion in loan guarantees to help finance investment in farms, rural housing, and rural electric facilities. The Commerce Department has over $7 billion in outstanding guarantees to finance shipbuilding and numerous other American industries. HEW has over $1 million of guarantees outstanding to finance medical facilities. Railroads have about $300 million. New York City has about $700 million. The Small Business Administration has guarantees of over $11 billion. All in all, the Federal Government now has a total of some $240 billion in outstanding loan guarantees. In view of this loan, a loan guarantee to the Chrysler Corp. breaks little, or any, new ground.

In 1971 Congress established the Emergency Loand Guarantee Board to assist major firms when a temporary financial crisis could result in a business failure which would adversely affect the economy of the Nation. Under that legislation the Lockheed Corp. received $250 million in loan guarantees which helped the firm avoid financial collapse and disruption of critical production.

Even though there are many differences between Lockheed and Chrysler, the Lockheed experience has helped us to develop the capacity to provide prudent assistance to major industrial corporations in temporary difficulty.

In the auto industry itself, the Federal Government has helped out American Motors with a wide variety of measures, including tax breaks, exemptions from mandated standards, and Government purchases of AMC vehicles.

Despite all this activity, governmental assistance to American industry has been undertaken in a sporadic, piecemeal, and uncoordinated way. The relationship between Government and industry in this country has to often been marked by a lack of understanding, by mutual suspicion and by hostility.

Many countries have stolen the march on us by developing what they call cooperative programs of "industrial policy" that have facilitated capital formation and contributed to the growth of productivity.

The problems of the Chrysler Corp. should be viowed within this larger context. And I am hopeful that the debate surrounding this issue will be conducted in that way.

TIGHT LIMITS AND CONTROLS

Let me emphasize, Mr. President, that this bill would not authorize a "bailout" in which the Federal Government steps in to prop up a failing company and permit it to continue inefficient operations.

I am convinced that there are very positive signs that Chrysler can be an efficient, vigorous manufacturer. But difficult adjustments must be made by everyone involved. This bill does not relieve the pressure for reforms. On the contrary, it gives those reforms a chance.

Any assistance must be tightly controlled and targeted on the national objectives of providing modern factories, maintaining the productive employment of American workers and avoiding massive regional economic dislocations. Windfall gains to stockholders and lenders should be minimized. This bill would authorize the Board to be innnovative in achieving those objectives.

The Federal Government should not provide aid alone, but should lead others—including suppliers, dealers, management, workers, banks, and State and local

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governments—to take risks and play a large role in making Chrysler successful again. That leadership is urgently needed, and this bill provides a framework for it.

BANKRUPTCY IS NO SOLUTION

Some have denied there is a need for Federal response to the problems of Chrysler.

Mr. President, the suggestion that a difficult national problem will solve itself always has a seductive appeal. Nevertheless, I am convinced that as Senators consider this complex industry, they will come to agree that the counsel of inaction is simplistic, unworkable, and dangerous to the Nation.

Some have put forth the notion that bankruptcy would buy time to speedily reorganize, consolidate, and operate Chrysler on a smaller scale as a viable company. Such thinking is not logical in the case of the auto industry.

Chrysler requires the flow of $40 million in cash per day to maintain operations. It depends daily on a fragile network of commitments by suppliers, dealers, banks, customers, and others. Ronald Trost, one of the country's leading experts on bankruptcy, testified before the Banking Committee that a declaration of bankruptcy would send an immediate and devastating shock throughout the entire Chrysler system. And it would trigger hundreds of bitter lawsuits that could last for up to 5 years.

In the meantime, Chrysler's dealership network would fall apart within 5 weeks because few would want to buy a car that lacks a guaranteed warranty, that carries no assurance that spare parts or service will be available, and that has almost no resale value. Banks would stop credit for dealer floor plans and dealer bankruptcies would spread like wildfire.

The supplier network could crumble just as quickly. There could be a supplier panic. They will have to insist on payment on delivery or even in advance, adding some $1.8 billion to Chrysler's cash needs. Many will stop shipping and attempt to turn elsewhere for business. Many suppliers will be forced out of business. It would only take the failure of a few critical suppliers to bring nearly all Chrysler production to a halt.

Reorganization through bankruptcy will mean only one thing and that is liquidation. Those who think otherwise do not recognize the organic nature of this company. One plant cannot function unless the others do. Consequently, trying to solve the problems of Chrysler through bankruptcy would be precisely the wrong course of action. It cannot remain alive on a piecemeal basis.

For the Congress to rely on bankruptcy would be a failure to respond. And we would have to live with and pay for the consequences of that failure for years to come.

FAILURE WOULD WEAKEN ITS ABILITY TO COMPETE IN INTERNATIONAL MARKETS

Mr. President, let me enumerate some of the consequences of a Chrysler failure.

First, the failure would deprive the United States of productive capacity we will need to compete effectively in the world automobile markets. Chrysler is a major part of our industrial base. It was the 10th largest industrial company in America in 1978, with annual sales of about $12 billion.

The corporation is investing some $1.1 billion to convert its plants to the production of new fuel efficient cars. Over $187 million is being spent to install a state of the art production line for four cylinder engines at its facilities in Trenton, Mich. That line will begin operations in January and will be able to produce 400,000 engines of which there is a severe world shortage. Another $85 million is being spent to convert the Jefferson Avenue assembly plant in Detroit for the production of a new front wheel drive car that will become available in August 1980. Similar capital improvements costing $85 million are underway at the Newark, Del., plant.

By next summer Chrysler's Kokomo, Ind., plant will have the capacity to produce annually an additional 425,000 automatic transaxles for front wheel drive cars after an investment of $190 million. This is one of the very few such U.S. plants that can manufacture these needed components.

The company's new process gear plant will have the capacity—which, by the way, is unique in the United States—to produce 250,000 5-speed front wheel drive transaxles.

Another $190 million in new tooling is being installed at all Chrysler stamping plants to provide better, higher utilization facilities.

The financial collapse of Chrysler would bring this capital investment program to a screeching halt. The Nation would lose much of the benefits of the years of

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planning and the hundreds of millions of dollars of investment that have already gone into these facilities.

Some have glibly asserted that other auto firms will quickly step in to continue these facilities in operation. That totally overlooks the highly specialized nature of these production lines and the difficulty of converting them. Even if other companies eventually do decide to purchase some of the facilities, a minimum of 2, and probably 3 years would be required to retool the plants to different specifications.

Moreover, if foreign companies take advantage of some bargain plants, only the lower skilled jobs would tend to remain in the United States. Critical work related to the design of products and manufacturing processes would move overseas.

Because of the current domestic shortage of capacity to produce small cars, a significant part of Chrysler's market share would be taken over by imports so that our balance of payments would worsen, the dollar would weaken once again, and American jobs would be transferred abroad.

These losses would have far-reaching consequences for U.S. jobs and the U.S. balance of payments. This year we will spend some $7 billion more on imports of motor vehicles and parts than we earn from their export. Chrysler's potential contribution to the subcompact market should make substantial inroads in the 25 percent of the domestic market now held by imports. This will help domestic employment, it will improve our balance of payments, and it will raise the international value of the dollar. In so doing, it will help to combat the substantial part of our inflation that has been caused by higher import costs due to the depreciating dollar. If we let Chrysler go under, exactly the opposite will happen.

ECONOMIC IMPACT OF A CHRYSLER FAILURE

Second, Mr. President, a failure would cause tremendous job and production losses in nearly all segments of the economy.

Let us work through a scenario of what might happen in the event of a Chrysler collapse:

Chrysler directly employs 140,000 workers; its suppliers employ an additional 180,000 in Chrysler related work. Chrysler dealers and others employ 100,000. All of these jobs would be threatened.

Once these income losses are felt, there will bo sharply reduced consumer spending by the unemployed workers. Also Chrysler will have to cancel its capital spending program. Both of these factors will send additional shockwaves throughout the economy adding, by modest estimates, another 200,000 to the unemployment rolls. Therefore, if Chrysler were to go under in the next few months, total employment could fall by as much as 600,000 in 1980 and this could mean an increase in the national unemployment rate of 0.6 percentage points.

A Chrysler shutdown would cause tremendous economic losses for the minority population since Chrysler is a major employer of black and Hispanic workers. In testimony before the Banking Committee, S. Martin Taylor, director of the Michigan Employment Security Commission, estimated that the black unemployment rate, which now stands at 13.8 percent in Detroit, would increase to about 5 percent. Nationally, it is estimated that 1 percent of total black income is derived from Chrysler. That income is in jeopardy, and it is income the black economy cannot afford to lose.

In the recession of 1974–75, unemployment in Detroit rose by 188,000 and the city's unemployment rate increased by 9 percentage points. A Chrysler shutdown would exceed those disastrous conditions except this time the disaster would be permanent.

Unemployment would also rise signficantly in many other States, including Delaware, Illinois, Indiana, Missouri, and Ohio to name but a few.

Claims that these workers would be absorbed smoothly by other employers fly in the face of past experience with much smaller corporate failures. In light of the current recession and the regional dislocations that would result from a Chrysler collapse, these claims are cruel and irresponsible. A Chrysler collapse would certainly deepen and lengthen the period of recession and economic uncertainty that has already begun. What scares me most is that we really do not know where and how the trouble would stop. It would be reckless to assume there would be a modest impact.

SEVERE REGIONAL DISLOCATIONS

Third, a Chrysler collapse would bring depression conditions in many regions across this country. The effects on Detroit, St. Louis, and several other areas have been extensively described in the press.

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The regional effects on unemployment would be substantial. In his Banking Committee testimony, S. Martin Taylor noted that a Chrysler shutdown would eliminate 3.5 percent of all manuacturing jobs in St. Louis, 13.6 percent in Kokomo, Ind., 11.7 percent in New Castle, Ind., and 9.5 percent in the Detroit metropolitan area. Mr. Taylor went on to say that:

"Chrysler * * * represents a signficant portion of the total employment in those areas, and if there was a total shutdown of the corporation * * * the prospects for re-employment would be tough."

The reasons cited by Mr. Taylor are the generally slow growth of the manufacturing sector in the country, and the location of Chrysler facilities in the older industrial cities that have experienced the slowest job growth, particularly in the manufacturing sector, and in smaller communities such as Kokomo where Chrysler provides a high percentage of total employment.

What are we going to do with these displaced workers? Even if they were relocated, it is doubtful whether they could find jobs without massive retraining efforts because Ford and GM do not appear to need this work force and because further inroads will be made by foreign automakers.

My distinguished colleague, Senator Tsongas, has movingly described to the Banking Committee the long-term economic, social, and psychological consequences that resulted from the loss of a large number of firms in Lawrence, Mass., 30 years ago. The effects are still being felt. Other Senators also know firsthand that we are playing with dynamite if we underestimate the consequences of a do-nothing policy.

I have studied the impact of a Chrysler failure on automotive suppliers. Some 20,000 firms sell goods and services to Chrysler. I think many Senators will be surprised to discover the importance of Chrysler to numerous small communities within their States. In many instances these suppliers are the major employer for a whole town.

Chrysler is less vertically integrated than Ford and GM and therefore relies heavily on its many suppliers. Consequently, a reduction in employment at Chrysler carries with it a loss of business and employment for a vast number of other firms. Because the other major auto companies are vertically integrated, many of Chrysler's suppliers would have nowhere else to turn for business.

Mr. President, much of the discussion of the past and present inefficiencies of Chrysler overlook a vital fact. It is that a Chrysler failure will bring down in its wake many small firms that are efficient, technologically advanced, innovative, aggressive, and vital elements of our economy.

A Chrysler failure would do further damage to regional economies because of its serious impact on the solvency of the Federal/State unemployment compensation system.

The unemployment compensation system still has not recovered from the impact of the 1974–75 recession, the deepest and longest since the Great Depression of the 1930's. During that recession, State unemployment insurance programs proved unable to mantain benefit payments without massive Federal loans and/or cost-raising increases in employer payroll taxes. As a result the outstanding indebtedness of the States to the Federal Government still stands at more than $5 billion, with Illinois, Massachusetts, Michigan, New Jersey, New York, and Pennsylvania alone having a collective trust fund debt of $4.1 billion.

The inability of States to repay these outstanding debts caused both Federal and State unemployment insurance taxes to be raised substantially. Under present law, employer payroll tax increases are mandated if a State is unable to repay its loans. These increased employer-based payroll taxes, together with escalating social security taxes, add significantly to labor costs. They will raise the prices of goods and services. They will further undermine the competitive ability of business within the affected States, even if they are unrelated to Chrysler.

HUGE BUDGETARY COSTS OF DOING NOTHING

Fourth. Mr. President, if Congress stands idly by and lets Chrysler collapse, the costs to the Federal, State, and local taxpayers would be so high that they would dwarf any costs related to a prudent program of financial assistance.

The 1980 job loss would translate into a reduction in GNP of some $18 to $20 billion. As a consequence Federal tax revenues would be reduced at least $4.5 billion, not to mention the tax losses at the State and local levels. In addition, transfer outlays for unemployment compensation, welfare, and food stamps all will have to rise, at an additional budget cost of at least $1 billion.

The Banking Committee has heard testimony from the Pension Benefit Guarantee Corp. that existing Federal loan pension guarantees cover a short-fall of about $1 billion. If we do not act to prevent Chrysler's collapse, well over 100,000 vested and

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unvested workers will find themselves dependent on an insufficient pension fund, and the Federal Government will be obligated by law, under the Employee Retirement Income Security Act of 1974, to contribute almost a billion dollars to cover the existing pension guarantee.

Thousands of federally insured home mortgages would be threatened with default and HUD would incur costs reaching hundreds of millions of dollars. Costs totaling $90 to $120 million are projected for the Detroit area alone.

Many promising economic and community development projects for which Federal funds and guarantees have been committed would also be endangered.

At a bare minimum, the total Federal budget loss would be $6 billion, with a more likely total of some $10 billion. Additional billions of dollars in losses would be suffered by State and local governments. Viewed from this perspective, possible Federal loan guarantees in the amounts that have been suggested as necessary would be cheap at the price.

CONCLUSION

Mr. President, I look forward to a thorough debate on this bill and the issues it addresses.

I am confident that a careful examination of the evidence will indicate that Chrysler can become profitable again if it receives assistance sufficient to finance the investments needed to modernize its facilities, increase its ability to supply the small car market, and ride out the recession. I have outlined the costs of a failure above, and they are enormous. When weighed against the benefits and probability of success, it seems clear that such assistance is justified. Assistance to Chrysler would maintain the company's capital spending program and thereby greatly enhance the value of its facilities to the Nation and provide important industrial capacity to meet foreign small car competition. Even if those modernized facilities would ultimately be taken over by foreign companies, the jobs provided would be American jobs.

Just 14 years ago Chrysler was a growing, vibrant company with an almost 20 percent market share. I can foresee this happening again given the new leadership in the company, Government assistance through this crucial period, and starting with a 10-percent market share base.

I urge my colleagues to support this bill.

Let me now emphasize certain facts that are important for anyone within the sound of my voice to consider. In the United States today we have a tremendous problem in our balance of payments deficit. The leading item in our deficit is, of course, oil. But what most people do not realize is that the second worst item in our balance of payments deficit today is the area of motor vehicles.

Last year, the United States ran a deficit of $7 billion in the trade account for motor vehicles, most of it in the form of foreign imports from Japan, West Germany, and other trading partners. There is absolutely no reason why this country should find itself in such an adverse trade position. But we are going to stay that way and it is going to get worse unless we understand the need to modernize our own national motor vehicle industry and to do it within the tough and costly constraints that our own Government has imposed with respect to mandated standards in the three areas I mentioned earlier.

There is a profound balance of payments effect.

In terms of jobs, if Chrysler were to go into bankruptcy today we are talking about the loss of up to 600,000 jobs across the United States, a reduction in GNP for the first year that can total $20 billion.

We are talking about increases to the Federal deficit that could run, in the first year alone, as high as $10 billion. It is easy to identify at a minimum a loss in tax revenues if Chrysler were to go into default of $4.5 billion to the Federal Government which would directly increase the Federal deficit.

In addition to that, in recent Senate hearings we have already identified an additional pension guarantee loss to the Federal Government in excess of $1 billion; an increase in Federal and State unemployment compensation cost of at least $1 billion, not to mention all the tax losses to State and local units of government.

When we take those dollar costs and we look beyond that to the wreckage that will occur in the lives of tens of thousands of people across the United States, many of them in my State of Michigan and in other States in the Midwest but ultimately all across the Nation, it makes no sense whatsoever for the United States to turn its back and inflict a wound on itself that is going to have these kinds of tremendously adverse effects on our whole country.

It is estimated that the increase in the unemployment rate nationally would be six-tenths of 1 percent. Coming at a time when we are in the midst of a recession, this development makes no sense whatsoever.

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Some have suggested that bankruptcy may be an answer to this problem. That is errant nonsense. We had in our hearings expert testimony from probably the No. 1 bankruptcy expert in the United States who has been handling these kinds of problems for the last two decades.

He testified without any equivocation that Chrysler could conceivably be tied up in the courts for as long as 5 years trying to sort out the equities if we were to allow a bankruptcy to take place. So that is not something that we ought to recognize as not a viable strategy from a going concern point of view.

The ACTING PRESIDENT pro tempore. Under the previous order the Senator from Missouri is recognized.

AID TO CHRYSLER—AN ECONOMIC NECESSITY

Mr. EAGLETON. Mr. President, I am pleased to join my colleague from Michigan in submitting legislation to assist the financially troubled Chrysler Corp. Senator Riegle has been outstanding in his leadership on this important problem.

The issue of aid to Chrysler already has provoked much heated discussion and frenetic news coverage. Undoubtedly, the coming debate will stimulate new clouds of rhetorical smoke. But I hope that, as the debate unfolds, my colleagues will keep a few salient facts in mind.

We must remember that Chrysler Corp. is not just its president. It is not just 12 people sitting on a board of directors. Chrysler is a network of manufacturing and dealer facilities employing more than 300,000 people across our country. Chrysler represents nearly $8 billion in purchases and additional hundreds of thousands of jobs for Chrysler suppliers. Chrysler means nearly $4 billion in payrolls invested in our Nation's banks and spent in our Nation's retail stores each year by Chrysler employees.

As these figures indicate, a Chrysler shutdown would have a devastating impact on all Americans. A study for the Congressional Budget Office predicts that a Chrysler failure would put as many as 600,000 people out of work and cause the loss of $19.3 billion in personal income through 1981. Many of those lost jobs would be permanently exported overseas.

A further consequence of a Chrysler collapse would be the continued concentration of American automobile production and sales in the hands of the two giant manufacturers, General Motors and Ford. These two companies now control 67 percent of all U.S. auto sales; in the event of a Chrysler failure, that figure would be likely to increase to 75 percent.

As any student of elementary economics knows, concentration in an industry is fundamentally incompatible with vigorous competition. American consumers would pay a heavy price for that lack of competition in the future.

Many have said that the Government should not help Chrysler because there is no place in our economic system for Government assistance to private enterprise. But even the briefest survey of recent history shows a wide variety of instances in which the Federal Government has provided loan guarantees, and even direct Federal loans, to businesses when the benefits of such assistance were judged to outweigh the cost to the Government. The Lockheed Corp. was brought back to financial health through a program of loan guarantees which cost the American taxpayers absolutely nothing. More recently, the steel industry received a total of $365 million in loan guarantees to safeguard jobs and help meet the costs of environmental regulation. The American people have assisted the shipbuilding and maritime industries with a total of more than $5 billion in loan guarantees.

So the issue is not whether the Government ever should intervene to assist private industry, or whether we would set a dangerous precedent by doing so in the Chrysler case. Clearly, such intervention already is more commonplace than most of us realize. And, clearly, the precedents in this area already have been set. The issue, then, is whether the benefits in this particular case outweigh the potential costs. On this basis, a Chrysler loan guarantee is solidly justified. Assistance to Chrysler would save far more jobs with less risk to the Government than either the steel or shipbuilding assistance programs.

The bill we are introducing today does not amount to unwarranted public interference in the private sector. It does not amount to a public takeover of Chrysler. It does provide for short term relief, in the form of loan guarantees to be issued through 1983. It does provide for tight public control over those loan guarantees. It does safeguard the taxpayers' interests, by giving the public prioritized collateral rights to Chrysler's assets.

Far from being a pernicious influence in the free market, our Chrysler proposal represents a form of occasional Government help which may be an essential tonic to keep the free market functioning smoothly.

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Mr. RIEGLE. Mr. President, let me just say of the Senator from Missouri, who has given tremendous leadership to this issue, as has Senator Levin, of my State, as far as Senator Eagleton is concerned he has really worked with great effort and over a long period of time to try to bring this problem into focus and to try to help bring about a prudent, a measured, and a sound response to what is clearly a strategic national issue.

I wish to praise him for that effort and to acknowledge it at this time.

Mr. EAGLETON. Mr. President, I thank my colleague very much. He has in fact been the leader on this issue from its earliest inception. But for the attention that he has focused upon it, the matter would be in very deplorable shape.

Mr. President, I ask unanimous consent that any time I have remaining I be permitted to yield to the distinguised senior Senator from Michigan.

The ACTING PRESIDENT pro tempore. Without objection, it is so ordered.

Mr. RIEGLE. Mr. President, I again thank the Senator from Missouri for his kind comments, and for generously yielding his remaining time to me. I will not consume all of that time. I note my colleague from Michigan is ready to present his remarks. I will conclude my statement so that Senator Levin may proceed.

Let me say again to those who are here and might be listening that I hope that people who have a concern about this problem will take the time to study the evidence that we have assembled so far. The statement I am making today in its full detail, I think, lays out the key aspects of this problem. I hope that my colleagues will seriously consider becoming cosponsors today. If that is not a course of action which they wish to follow, then I ask them to keep an open mind on this issue until we have had the chance to commence full hearing in the Senate Banking Committee and to establish clearly the dollar figure that seems appropriate in the Chrysler case.

I emphasize again that what we are proposing here is not a ballout of Chrysler. It is, in fact, something very different from that. What we are talking about here is a program of loan guarantees, very tightly written, very tightly controlled. It will enable this company to get through a most difficulty financial period and to get back on its feet so that it can function in a profitable position and so that it can modernize the tremendous number of facilities that Chrysler has which are vital to our own ability to produce the kind of cars that are needed in the future; and to put us on a stronger footing in dealing with foreign competition.

We have to bear in mind that the Chrysler Corp. is the 10th largest corporation in the country. Its sales last year were close to $13 billion. So the sheer size of the auto industry as a whole, something close to 20 percent of our national economy, and therefore, the size of the third largest auto company is essential for us to understand so that we can see why the economic shock wave would be so devastating to the country as a whole.

The other day, someone said that Chrysler was the first automobile company to experience this problem. I want to make sure for the record that everyone understands that that is not the case. The first company to get into serious financial difficulty, partly due to the pressure of Government regulations and standards, was the American Motors Co. The Federal Government responded and, I think, properly so, by providing relief in a number of forms: Tax credits, special purchasing arrangements through GSA, relief from certain emission standards, relief from antitrust requirements that allowed them to buy technology from other companies rather than have to spend to create the technology on their own. These were useful steps because American Motors has since gotten on a strong financial footing. It is today a profitable company that has resumed paying dividends and has kept those jobs in place in our society. As I say, I supported those initiatives and I would do so again.

Chrysler now comes along in an equivalent situation, not first, but second. That is why I think it is important that those who might want to target Chrysler for criticism ought to think very carefully about that because, as I say, we have today numerous other examples. We have the Lockheed case in a different industry; we have the American Motors example in the automobile industry. We have the recent EDA loan guarantees in the steel industry, which is immediately adjacent to automobiles and which provides a lot of its product to the automobile industry.

We presently have outstanding at the Federal level $240 billion worth of loan guarantees for every conceivable item under the Sun, ranking from shipbuilding to FHA mortgages, to a host of programs in the field of agriculture, the steel loans that I have just mentioned, and so forth. So any suggestion that, somehow, the Chrysler situation breaks new ground is just not true. It breaks no new ground at all.

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Having said that, I want to make it also very clear that I want the U.S. Government to participate only on a basis that lays down tough, hard, fair conditions that fully protect the interests of the taxpayers. That is exactly what our bill would do.

Finally, let me say this: For some time now, the Treasury Department, in behalf of the administration and the Chrysler Corp. have been talking and working together to try to arrive at a formula of help for Chrysler that the administration could sponsor and send to the Congress. Unfortunately, those discussions have not yet reached a conclusion and of course, here we are moving into new financial circumstances with new monetary policies and the high interest rates; the uncertainty in the capital goods industries with a recession setting in. So every day that passes is a costly day. As a matter of fact, the Booz-Allen study on Chrysler, just revealed indicates that if action had been taken 6 months ago to assist Chrysler, less money would have been needed than is needed today. It went on to say that if we wait another 6 months, more money will be needed in the future than would be needed if action were taken now.

In addition to that, we are coming down to the end of this legislative session, so time is of the essence for us to respond. With this bill today, we put the issue on the table legislatively. I am prepared to wait a matter of a few more days for the Treasury Department and Chrysler, hopefully, to have a meeting of minds with respect to a specific proposal. I have reason to believe that will happen, and it ought to happen.

But if, for any reason, it should fail to take place within the constraints of the time pressure that we are under now, in the waning days of this session of Congress, I am going to seek formal hearings in the Senate Banking Committee. Then we shall have to act on an independent basis to try to develop our own judgment about a dollar figure to seek, a loan guarantee figure. I have every reason to believe the Senator from Wisconsin, the Chairman of the Committee on Banking, my friend, will take a reasonable view toward conducting hearings on a problem as urgent as this one.

I know he has made it clear that he does not favor loan guarantees in the Chrysler situation; at least, that is his current position. But I know that, in the past, with respect to the New York City loan guarantees, where he also was opposed to loan guarantees, he was eminently fair as a chairman and moved on a timely basis, allowed the committee to act on the issue with hearings, with markup, and with action. The will of the committee was freely expressed despite his position to the contrary. I respect that past history on the New York issue and others. I trust we shall see the same in the Chrysler case. I have no reason think we shall not.

In any event, we are at the place where action must take place now in the executive branch. I would be delighted to see the Treasury Department come forward in a short time with a specific proposal. I shall be delighted to work with them as we have done all along up to this point.

We have a companion bill moving forward in the House, with some slight differences, introduced by Congressman Blanchard and a number of other cosponsors which we hope to see in conference before this session ends, along with a bill that can come through the Senate based on the legislation that we have introduced today.

As I say, my full statement goes into much greater detail. I should like to ask those who have a sincere and deep interest in this issue to take the time to look at the detail, because I think it will answer many of your questions.

I also say that if anyone else has further questions that they would like to go into, I am available at any time and my staff is available to sit down and discuss this matter and provide information. If additional facts are needed, we are prepared to seek those facts and make them available to whoever might need them.

Mr. President, I know my colleague from Michigan (Mr. Levin) who has given great leadership and effort to this cause, is here and has a special order. I should like, at this point, to reserve the remainder of my time and ask that he be recognized if he would like to speak.

The ACTING PRESIDENT pro tempore. The Senator from Michigan is recognized for not to exceed 15 minutes.

Mr. LEVIN. I thank the Chair.

Mr. President, I am delighted to join with Senator Riegle and the other cosponsors of this bill in introducing legislation to assist Chrysler Corp., and to save the Treasury, the taxpayers, and the economy from the severe impact of a Chrysler failure, In doing so, I want to pay a special tribute to my colleague and friend, the senior Senator from Michigan for the extensive effort he has put into this project. I know he has spent literally hundreds of hours discussing the issues with leading authorities, studying materials associated with previous governmental action of this

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type, and thinking through the larger philosophic and economic issues associated with this problem. The bill he has drafted for introduction today reflects that work and it is one that I am delighted to support.

There are some obvious facts which I think need to be acknowledged from the outset. I, of course, have a particular bias as I approach this situation: My home State of Michigan would be the State most heavily affected by a Chrysler collapse. The city of Detroit would be devastated by a Chrysler collapse. And to that extent, I am probably not the most objective judge of this situation. But I do not think that geographic considerations have warped my judgment or influenced my thinking to the extent of making me abandon some basic principles and perspectives which I believe are widely shared in the Congress and which I believe compel us to assist Chrysler.

First, I believe in the fundamental free market structure of the American economy. And I also believe that Federal assistance to Chrysler does not damage or modify the basic framework of a free market as we know it an practice it today.

Long ago, we made the decision that Government should intervene in the marketplace in order to assure the safety of the people and the well-being of the Nation. That decision led to the creation of the Small Business Administration, the passage of the Economic Development Act and a host of other similar programs and agencies devoted to helping business enterprise.

Chrysler's request might, at first, appear to set a precedent if one looks only at the size of the request—but, if one examines the basic nature of the request, there is no precendent established, there is no violation of the free market as we know it, and there is no violence done to the notion that the private and public sectors ought to work together to achieve mutually supportive goals.

Second, I believe that we, as a Nation, are wiser and stronger if we act to prevent disaster than if we simply react to it. If we refuse to assist Chrysler, or if we sit back and fail to make any decision, we will be paying for it for years to come. The dimensions of a Chrysler failure are hard to fathom because they are so massive. A whole series of studies suggests that the cost to the GNP would approach 1 percent within the first year; unemployment would increase by 0.5 percent with areas like Detroit and St. Louis being particularly hard hit; direct costs to the Federal Government pension insurance program would exceed $1 billion; and the costs to Federal and State treasuries in the form of unemployement compensation and welfare would cost billions more.

And these, Mr. President, are not only short-term effects. These are effects which will continue for years to come. The Chrysler work force will not be easily integrated into the economy because of the existing slack demand in the auto industry and because of the geographic location of Chrysler facilities.

If we allow Chrysler to fail, we allow the economy and the employees to fail for a prolonged period of time. And during that time, we will all bear the economic and psychic scars created by a self-inflicted wound. And the wound will not be restricted to Chrysler. The impact of a failure of this magnitude will not be felt only in the auto industry. With Secretary of the Treasury Miller telling us recently that we have yet to feel the full impact of the current recession, one would be foolish to believe that there will not be a massive spillover from Chrysler to the general economy. So, Mr. President, a failure to aid Chrysler will cost us. It will cost us now and in the future. It will cost us in terms of economic and human growth.

Third, I believe that, when the Government moves into the private sector, it should minimize the risk. I think this bill accomplishes that goal by securing our guarantees and giving the Government guaranteed loan priority standing among creditors.

We should also see to it that Government assistance is complemented by other interested parties. I believe that we are all aware that negotiations are under way with the UAW and with banks and with State governments and with local governments. Those negotiations are designed to bring all of them into the plan. The problem has been that they all want to see the Federal Government make its commitment first since they know that no action on their part—without Federal assistance—will be adequate.

By the same token, the Federal Government has held back, in part because they have not seen action from the other affected parties. This game of "who will bell the cat" must end. We have before us legislation which makes clear there will be a Federal Government commitment while leaving plenty of room for the commitments of other interested parties. Once the broad framework of the commitment has been established, we can move to assure the widest possible participation from other parties. But that participation is less likely and less strong until there is a signal from Washington, even if that signal is conditioned on others doing their share.

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Any investment by the Government should also have a high probability of success. In this case we need to be assured, to the extent that we can be, that a guarantee of the nature being proposed will in fact be sufficient. The amount of the guarantee seems to me to be the issue which is most open to debate, and that issue will need to be resolved in committee and on the floor. Based on what I have read and based on the discussions I have had with knowledgeable industry observers, I believe that Chrysler can succeed, that their goals can be achieved, that they can return to a profitable and competitive posture in the industry.

That cannot occur if they are forced into reorganization in bankruptcy; that cannot occur if they are forced to restrict their product lines; that cannot occur if they are denied Government assistance. But it can occur if we seek to help as well as regulate. It can occur if we act instead of delay. And it can occur if we are but willing to recognize our obligations. When we have done so in the past—as we have with Lockheed and with American Motors and with the steel industry and with literally thousands of other businesses—the results have been satisfactory.

Any investment must recognize that the motive is to help workers. Several members will address the issue of employee stock ownership as an element of any Federal plan. I am inclined to support such an effort and this bill recognizes the desirability of it. Once we have had an opportunity to hear from the Treasury, from the company, and from the UAW and other unions, I am hopeful that we will have a firmer sense of precisely how such a proposal would operate and precisely how it would contribute to the success of this venture.

Mr. President, I hope that all Members will keep an open mind on this subject. I am confident that, as this legislation moves through the committee process, a hearing record will be delveloped which will answer questions and remove doubts.

And I urge my colleagues, no matter what their position on the merits of the issue, to cooperate in expediting the consideration of this legislation and other bills associated with it. I know full well that there are pressing issues before the Senate. But I also know that many of those issues will be around for years to come—Chrysler may not be unless we act and act soon.

Obviously, I care about getting this legislation passed. But I also care about getting this legislation considered. I am more than willing to abide by the will of the Senate—I just want to be sure that the Senate gets an opportunity to express that will in a timely fashion.

In this regard, I hope the Treasury Department will expedite its decision and get moving. They say they want to help. I am frankly less than satisfied with the strength or speed of the signals emanating from the treasury. I am less than enthralled with their leadership, with their apparent decision to wait and see what others would do before they made a firm commitment to act and with their setting an arbitrary ceiling on the level of Federal involvement even before they saw Chrysler's detailed statement of their needs and intentions.

I hope Treasury will reconsider that arbitrary ceiling in light of the Booz-Allen report which shows that the needs are greater than was estimated a few months ago.

In conclusion, Mr. President, I again want to commend my colleague from Michigan for his extraordinary leadership in this matter.

Mr. President, I suggest the absence of a quorum.

Mr. RIEGLE. Mr. President, if the Senator will withhold that, I am about to yield back the remainder of my time.

I commend Senator Levin for an excellent statement. I again acknowledge the tremendous leadership he has given in this issue. I thank him for his kind words and echo his appeal to all our colleagues to keep an open mind on this issue and to give us a chance, in the weeks ahead, to get a full factual record out on the table, so that we can make careful and prudent decisions as to what the problem requires. I think it is something we are in a position to lay out in a way that will satisfy all Members of the Senate, and we look forward to that opportunity.

I yield back the remainder of my time.

Mr. NELSON. Mr. President, I am pleased to cosponsor the Chrysler Emergency Loan Guarantee Act. I consider temporary aid to Chrysler to be vital to the national interest. At present, we have two chocies. We can either do nothing and let Chrysler slide into certain bankruptcy or we can provide the loan guarantees which will allow Chrysler to survive and prosper in the future.

Given our economy's precarious condition, I do not see that we really have a choice. Mr. President, let us consider the following facts. Chrysler employs approximately 300,000 people directly in the United States and employs hundreds of thousands more indirectly through its suppliers and dealers. A CBO study has estimated

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that a Chrysler bankruptcy would put 600,000 people out of work and cause a loss of $19.3 billion in aggregate personal income by the end of 1981.

Wisconsin's stake in Chrysler survival is less apparent than that of Michigan, Missouri, or Indiana, but it is, nonetheless, substantial. Chrysler has six facilities in Wisconsin, employing 950 people; 4,581 people in Wisconsin work on Chrysler parts for supplying firms. And Wisconsin's 167 Chrysler dealers employ 2,441 persons.

Mr. President, this legislation has been carefully and sensibly drafted. it would create a Board composed of the Secretaries of the Treasury, Labor, and Commerce with the authority to guarantee loans to Chrysler upon its certification of the necessity of such loans. The Board's loan guarantees could extend for up to 10 years at rates of interest to be controlled by the Board.

The bill would require that all Government loan guarantees be fully collateralized and provide for a variety of administrative safeguards to protect the taxpayers' interests. The board's authority extend guarantees would expire in 1983. The bill provides no ceiling on loan guarantees but it is my assumption that the hearing process will disclose what constitutes a proper ceiling level. The bill provides that $250 million or 25 percent of the loan guarantee will be provided through an employee stock ownership plan. The ESOP concept is one that I support and one that I believe has much to contribute to a Chrysler revival.

Mr. President, most of the opposition to loan guarantees for Chrysler has been premised on the belief that failing corporations ought not to receive public support. The survival of free enterprise, it is alleged, depends upon letting mismanaged companies go broke. With all respect to those who hold this view, it is too simplistic. We do not live in a pristone capitalist economy. We live in a complex, interrelated mixed economy where a business failure of this magnitude could and would have catastrophic "ripple" effects. It also matters to me that Chrysler employs tens of thousands of black workers in its Detroit plants and that if those people were to lose their jobs no amount of poverty programs could return them to their present economic level.

Further, it ought to be noted that loan guarantees are given all the time by the Government with minimal publicity and no measurable damage to the free enterprise system. The shipbuilding industry has been so assisted and the steel industry recently got a $365 million loan guarantee to help with antipollution costs. The Lockheed loan guarantee saved a company and the Government never lost a nickel. Proposals for loan guarantees ought to be weighed on an individual basis, not ritualistically condemned.

I have confidence in Chrysler's new management team, headed by chairman Lee Iacocca. Chrysler's most recent sales figures are promising. Guaranteeing loans for Chrysler is an investment in the future. It is an investment in continuing competition in the automobile industry. And it is an investment in self-sufficiency for hundreds of thousands of American workers. It is, I have concluded, a worthwhile step to take.

Mr. MATHIAS. Mr. President, today I join my distinguished colleague from Michigan (Mr. Riegle) as a cosponsor of his bill to provide a program of assistance to Chrysler Corp. The provision of the bill that I find most appealing is the mandatory employee stock ownership plan, which I think will help solve Chrysler's long-run productivity problems.

Today, the New York Times published a letter on this subject from Senators Long, Byrd of West Virginia, Nelson, Gravel, Stewart, and myself, and Congressmen Kostmayer and McHugh. I ask unanimous consent that the text of the letter be printed in the Record.

There being no objection, the letter was ordered to be printed in the Record, as follows:

[From the New York Times, Oct. 24, 1979]

IF CHRYSLER WORKERS WERE CHRYSLER STOCKHOLDERS

To the Editor:

The Chrysler Corporation has recently been in the news with its request for financial assistance from the Federal Government. Such a request raises an array of issues, one of which we would like to address.

A chief difficulty currently facing American industry is the steady decline in productivity. In the second quarter of this year, U.S. nonfarming businesses suffered the sharpest drop in productivity since the Federal Government started keeping such figures, in 1947. Although this problem is not as severe in the automobile industry as in other sectors of the economy, it has become so great a national

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problem that we feel it is an issue which must be kept in mind whenever the American taxpayer is asked to assist a financially troubled company.

If American business is to be competitive, we must find a way to reverse productivity's downward spiral. During the decade of 1967 to 1977, the United States was tied with Great Britain for the lowest productivity gains of any major industrial nation in the Western World.

If a beleaguered American corporation is to be offered Federal assistance in any form, the form that assistance takes should be one that directly addresses this productivity issue. Over the past several years, we have begun to accumulate evidence indicating that employee stock ownership may offer a solution to this troublesome problem.

Employee stock ownership may offer a route by which we can mover imaginatively to reverse productivity's decline. For example, a recent survey by the Senate Finance Committee of almost 100 companies with employee stock ownership plans indicates that in the average three-year period since the adoption of such a plan, as opposed to an average corporate age of 24 years, the responding companies:

Realized a 72 percent increase in sales.

Realized a 37 percent increase in number of employees.

Realized a 157 percent increase in profits.

The merit of employee stock ownership can be easily summarized: Ownership counts. It seems to summon up a common determination to succeed. It creates a climate wherein a unity of interest and incentive can emerge. If a company succeeds, its success is widely shared. And its eventual success or failure is placed in the hands of those upon whom it's success or failure will largely depend. Certainly the U.S. economy can only be made stronger by providing the American worker with an opportunity to own the tools and equipment with which he works.

In 1970, the United States guaranteed a $250 million loan by a group of banks to Lockheed Aircraft Corporation. This step was taken to assure the continued viability of Lockheed. At that time, Lockheed directly and indirectly employed almost 400,000 individuals; had we not guaranteed these loans, these jobs could have potentially been lost.

Today, Lockheed is a thriving corporation, these loans have been repaid and the Federal Government actually realized a profit because we received a fee for guaranteeing the loans. Had we required that Lockheed establish an employee stock ownership plan as part of its Federal assistance and contribute an amount of stock to the plan equal to $10 million, today that stock would be worth about $100 million.

This is not meant to indicate at this time that each of the signatories to this letter either supports or opposes the granting of Federal assistance to the Chrysler Corporation. We do fee, however, that, should aid be offerod, it should only be offered in such a way as to create an opportunity for a solution to this difficult productivity issue. Employee stock ownerhsip seems to offer such an opportunity.

AFTERNOON SESSION

The CHAIRMAN. The meeting will come to order.

Secretary Miller, during the committee's hearings this morning, many members outlined their philosophical reservations concerning the proposition that the Federal Government has an obligation to bailout individual firms.

I am sure you are familiar with these arguments and I will not repeat them here. As a former businessman yourself, you must be aware of the serious precedent we may be creating by coming to the aid of Chrysler in the form of a $1.5 billion loan guarantee.

I think I understand how 1980 political considerations may have shaped the administration's position on financial aid to Chrysler. However, once having reached that judgment, I simply cannot understand how a successful former businessman as yourself can propose a bill that is riddled with loopholes and provides practically no protection to the Federal Government.

I hope these hearings can bring out what I regard are some of the most glaring deficiencies in the administration bill.

Let me be more specific:

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First, the bill authorizes the loan guarantees to be outstanding for up to 11 years even though we are told that Chrysler is to be able to get back on its feet in 3 or 4 years;

Second, the bill permits the Secretary of the Treasury to extend guarantee assistance of up to $1.5 billion for the next 11 years. Thus, even if Chrysler paid the guarantee back in 3 or 4 years, it would continue to enjoy a $1.5 billion line of credit from Uncle Sam for the next 11 years;

Three, the bill imposes no specific sacrifices on the stockholders of Chrysler who stand to gain the most benefit from the Federal bailout. Senator Heinz made that point very strongly this morning. As a minimum, I think Chrysler should be required to raise $300 million in new equity even though this may dilute the value of the current stockholders;

Four, the bill permits the Secretary to allow the company to pay dividends to its stockholders while the guarantee is outstanding;

Five, the bill permits the Secretary to subordinate the Federal loan to other loans the company may have outstanding;

Six, the bill allows the Secretary to waive all collateral requirements;

Seven, the bill permits the Secretary to waive the Federal Government's clear priority over other creditors in the event of bankruptcy as provided in our bankruptcy laws; no such waiver, incidentally, was given Lockheed;

Eight, the bill permits the Secretary to set the guarantee fee as low as one-half of 1 percent which fails to compensate the Federal Government for the risk it would be assuming and which provides the company with an unfair edge over its competitors.

In the case of Lockheed, Congress required that the guarantee fee be high enough to bring the total cost of the loan up to what a similar firm would have to pay on the private market;

Nine, the bill fails to give the Secretary of the Treasury complete access to all of the information Chrysler may have bearing on its financial ability to repay the loan. Complete access was provided in the Lockheed situation;

Ten, the bill requires the Federal Government to guarantee one-half of the additional financing Chrysler will need to insure its survival. The Federal contribution is far too large; a much smaller contribution would be in order; and

Eleven, the administration has asked for immediate congressional action even though a complete financial plan or an assessment of alternative marketing strategies will not be furnished by Chrysler until mid-December.

Mr. Secretary, so far as I can see it, you are asking the Congress to play Santa Claus—and a deaf, dumb, and blind Santa Claus at that. You want us to vote and pay for a great big $1.5 billion Christmas present with Chrysler's name on it that says, "do not open until December 25," or maybe January 15 or March 31.

You say we should buy now, sight unseen, with no comparison shopping, and some day maybe we will know how much it all cost.

If Congress is to pass a Chrysler bill, I think it should be as tough as possible. It is not sufficient to argue that if we make the bill too tough, the banks or other parties will not participate. These

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other parties have a much greater stake in the survival of Chrysler than the Federal Government.

If they are unwilling to participate unless the Federal Government provides a blank check, then it seems to me they are telling us that the Chrysler financial plight is much more hopeless than it has been presented to us.

Senator Garn?

Senator GARN. Mr. Chairman, I realize that Secretary Miller has a time problem. I made an opening statement in the morning session.

I would just thank the Secretary for coming. I was with him at breakfast this morning to discuss the Iranian financial problem, and I know he has a very difficult schedule today.

So I thank you for being willing to come. It would not have been surprising if you had had to cancel today.

The CHAIRMAN. Senator Riegle?

Senator RIEGLE. Thank you.

Secretary Miller, it is a pleasure to have you here today. I am sure that some of the comments that you have already heard ring familiar bells in terms of other appearances that you have had before this committee.

I want to congratulate the Carter administration for the excellent work that has been done, the professional work that has been done in formulating this important proposal.

It has taken time, but you have tapped the best outside experts that are available to come in and provide independent judgments along with top people within the administration, both within Treasury and in the White House and other areas of the Government.

Your finding that I know you are about to discuss, that keeping the Chrysler Corp. sound and in business is profoundly in the strategic national interest of the United States. This is a bottom line assessment that I think is basic to the final judgment that I think this committee will be called upon to make.

I was delighted to introduce legislatively the proposal that you brought forward.

I will only make one other comment at this time. I think your ability as the person who would constitute the loan board with broad powers to oversee future developments within Chrysler should the loan guarantees be made available, provides the essential safeguards in the protection of taxpayer interests that gets at many of the issues that the Chairman has just raised.

I have great confidence in your ability—as a tough but fair manager of that problem from a public interest point of view—to be able to exercise that authority wisely and well.

So my hope is that after we have had a chance to evaluate all of the evidence that has caused the administration to take this very strong position, that the Congress will decide to do likewise.

The CHAIRMAN. Secretary Miller, go right ahead, sir.

Secretary MILLER. Thank you, Mr. Chairman.

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STATEMENT OF G. WILLIAM MILLER, SECRETARY, DEPARTMENT OF THE TREASURY, ACCOMPANIED BY ROGER ALTMAN, ASSISTANT SECRETARY (DOMESTIC FINANCE)

Secretary MILLER. I would appreciate it if my full statement and its appendixes could be in the record.

The CHAIRMAN. It will be.

We are glad that you could come in view of the demands on your time. We understand that Roger Altman will take over when you have to leave.

Secretary MILLER. Yes. I would like to run through using the aid of these charts a summary of my presentation today.

Let me start by saying that I believe we have tried to make it clear that this administration does not, as a general rule, believe it is wise to have the Government making financial assistance for private corporations.

EXCEPTIONS FOR FINANCIAL ASSISTANCE

Even with that general rule, there are exceptions. There are exceptions where the public interest may override that general proposition. We have seen many exceptions in the past and we know that there may be other occasions from time to time.

We hope they will be limited but this seems to us to be one of those situations that requires an exception.

The outline of what I would like to say this afternoon is first to discuss the reasons why we believe aid is justified in this case as an individual matter.

Second, to look briefly at the Chrysler situation.

Third, to review the Chrysler financing needs.

And fourth, to look at the proposal before the committee and try to discuss its aspects, and then respond to your questions.

We have attached to my testimony three documents and we have submitted others. But the three we have attached would include a Treasury staff analysis of the economic impact of a shutdown of the Chrysler Corp. The second, we have included information on the historical patterns for Chrysler compared with the industry. And we have included a review of Chrysler Corp. made by Ernst & Whinney and John C. Secrest, consultants that we retained for this purpose.

The reasons for the aid are numerous. First is that it appears to us that, if there is not a financial aid program for Chrysler, it is likely that the company will face an insolvency and a reorganization under bankruptcy laws.

That process would create an interruption of the normal operation of the company, and we believe would result in substantial short-term unemployment, some of which would be absorbed in later years, but for a period of time would be very disruptive.

There are now about 113,000 Chrysler employees. There are about an equal number of employees in the dealerships operated to sell Chrysler products. There are about 150,000 employees engaged in the operations of supplier firms who sell components to Chrysler.

There would be in these firms a significant impact from a shutdown reorganization of Chrysler in bankruptcy. The instrument we

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made is not as detrimental to the economy as some others that have been published. We believe that we have approached this on a reasonable and balanced basis.

It would appear that unemployment over the next few years should Chrysler seek reorganization in January over the next 2 years, the unemployment would be some 75,000 to 100,000 people.

This kind of unemployment would fall in various locations, but it would particularly hit heavily in the Detroit area and in Michigan and in the Midwest.

More than half of Chrysler's employees are in the Detroit area. That would be more than 60,000 of these employees are in that area.

We don't know for sure because of the different contracts that vary from year to year, but on application of suppliers' work to Chrysler components, it appears that another 20,000 to 40,000 jobs are represented in supplier firms in the Michigan area.

It is the Treasury's estimate that should there be a temporary shutdown of Chrysler, that the unemployment rate in the Detroit area would rise some 4 percentage points. It is already about 8 percent, and so it would indeed be a very serious impact to the Detroit area.

In addition to the effects on employment, unemployment in the areas where Chrysler operates and its dealers and suppliers operate, in addition to the impacts that would be localized in Detroit and Michigan, we would expect an adverse impact from a shutdown of Chrysler to our balance of payments, even though other American suppliers might in due course be able to either arrange their productions or increase their capacities or even refurbish Chrysler plants to increase their capacity.

In the short run, there would be substantial need to supply the output of Chrysler that was interrupted by purchasing automobiles from abroad.

It is our estimate that there would be some billion dollars a year in the short-term increase in our balance-of-payments deficit, or we would lose some billion dollars in out-go from the purchase of foreign products. And this at a time when we are concerned about the stability of the dollar is something that we would not welcome.

I might point out that in my judgment, that even if Chrysler was reorganized and its facilities redistributed or other capacity put in place, that the process of reorganizing such a major manufacturer would result in some permanent loss of that market to foreign suppliers.

That would mean some permanent loss of American jobs.

In addition to these impacts, we need to look at the competitive situation. The automobile business is an important industry. It is a major industry. It is a major employer, a major world industry.

After World War II, the United States had the lion's share of this business. In the early 1950's, we had about 80 percent of the world market. We are down to some 25 percent of that market now.

It is important that we retain a position as a nation in that important worldwide business. If we should see the demise of Chrysler and the reorganization of its facilities, there would be reduced competition of U.S. suppliers. There would be fewer major

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suppliers. And to some degree, America would lose position in the competitive race in the world, and this, we believe, would be adverse.

Quite apart from these considerations, quite apart from our analysis and our own viewpoints and philosophy about effects on unemployment, effects on local communities, effects on markets, there is the more pragmatic question of what does it cost not to help Chrysler?

BANKRUPTCY EXPENSIVE TO TAXPAYERS

There is a cost to American taxpayers from the bankruptcy of Chrysler. This would show up in higher unemployment compensation costs that would be paid out to those who are either temporarily or permanently displaced from their jobs.

There would be increased welfare payments. There would have to be Government programs to retrain and reestablish employees.

This would mean further Government outlays.

There would be loss of incomes which would mean loss of Federal taxes and revenues from those incomes.

There would be loss of local revenues from the economic impact of the dislocation.

These added to the balance-of-payments effects I have already mentioned means it is not costless for us to ignore the Chrysler situation.

Our estimate is that in the transition in the years 1980 and 1981, there would be an increased Federal deficit of $2¾ billion as a result of the bankruptcy of Chrysler. This estimate, of course, represents a loss to American taxpayers far in excess of the risk that might be involved in guaranteeing a loan of $1½ billion as a part of a program under which the company would have the opportunity to remain and become an effective competitor in the automotive industry.

Let us turn from the considerations of why aid Chrysler which go to the particular impact on our local and national condition and markets into the ultimate cost to the Chrysler situation itself.

We know that there has been a major transition in the automobile industry. We have had the realization, perhaps too late in our national thinking, of the limitations on availability and cost of energy and particularly petroluem and particularly gasoline.

This has led to a shift from the traditional American car, the traditional large family car, the traditional American luxury car to a class of automobiles that are smaller and more fuel efficient.

And this shift is one that is a major transition for all of the companies involved. Whatever may have been the past, the future must be built upon this trend.

In Chrysler's case, not only has it had to make this market shift, it has also had a significant position in vans and light trucks, which have been hard hit by the recent increases in energy costs, gasoline costs, and have made those markets more susceptible to change. And therefore, has impacted their short-term outlook.

We know that the recent cost increases of gasoline in the second quarter, some 60-percent increase in oil prices in the second quarter this year merely add to this general problem.

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There is also the current economic slowdown. That means regardless of Chrysler's transition, there is a difficult time right now in making the shift over to the new kinds of automobiles.

All of these shifts will be expensive in terms of capital needs, the development of new products, tooling for them, and capital needed to comply with regulatory standards that are part of this whole process of change.

If we look at the transformation of the automobile industry, we should remember that in 1968, about 10 years ago, that the small automobile represented about 16 percent of the market.

It now represents about one-third. And by 1985, it will be some 60 to 80 percent of the market.

American companies, not counting foreign producers, but American companies between now and 1985 will need to spend $80 billion to make this transition. For Chrysler itself it means capital needs between now and 1985 of $13.6 billion. Even under normal economic circumstances, that would indeed be a difficult task for this particular supplier.

Financing needs are difficult right now and we know that the current weakness of the automobile business merely contributes to further difficulty for Chrysler in sustaining the cash flow and resources it needs to make this shift.

We can all point out the fact that to the extent that Chrysler has made this shift and has cars like the Omni and Horizon, it has a large demand for its product. But it is now capacity limited and cannot produce more of these automobiles, and that is part of the reason that it needs the capital in order to continue to expand its capacity for the cars that are needed and should be produced for the future.

We have tried to analyze what financing needs the company would require in order to move from here through a transition period to be a self-financing, self-sufficient company.

Early this summer when I first came into office, we addressed this problem, and we asked Chrysler to submit to us a plan which would show a program, both in terms of operation and financing, to move them through the years that are immediately ahead to complete the renovation of their plants and equipment and their transition of product and prepare them to proceed in the future.

ANALYZING AND RECHECKING PROGRAM

We received an interim plan September 15, which was incomplete and insufficient. Chrysler submitted a plan on October 17 that then became the basis of our analysis. In order to deal with this plan, we retained the firm of Ernst & Whinney, a major public accounting firm. As soon as that plan was available, Joe Keller, a senior partner of Ernst & Whinney, organized a group of professionals, 25 in strength, who spent the time from then until we made our proposal in the Chrysler facilities analyzing and rechecking the plan and developing for us the financial base for us to make a judgment as to the soundness of the plan and the real requirements of the company.

We also retained John Secrest, a former financial vice president of American Motors, who had faced similar problems, and he

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worked with us also, as did the Treasury staff, in doing all of the analyses, many of which we have filed.

As a result of this particular analysis, we were able to develop some feeling for what was really required. I would like to just point out that this, as I have already mentioned, the plan submitted by Chrysler contemplated $13.6 billion of capital spending in the next few years. It included an operating loss of about $1 billion in 1979 and almost $500 million in 1980. It indicated a cash flow need that would peak at $2.1 billion in 1983, and it indicated that it would raise the $2.1 billion of shortfall of cash from three sources.

One would be $850 million from asset dispositions, from other financial institutions, from State and local grants; $500 million from constituents and employee participation, and seeking $750 million in Federal loan guarantees. Right after we received the October 17 plan, we received additional information from Booz, Allen & Hamilton, who are management consultants who have been retained by Chrysler to look at their product plans and the probability of needs to achieve these plans.

It was Booz, Allen's opinion that some additional $700 million might well be needed and should be provided to be sure of achieving this transition. So that if one took the Booz, Allen supplemental state and the need for a standby, the financing of an additional $700 million, the total cash needs came up to $2.8 billion.

Now since this plan was submitted, most of the professional forecasters had indicated a reduction in the outlook for automotive production this year and next. One of the first things that our specialists did was begin to adjust the October 17 plan for a series of possibilities in order to build a financial analysis from which we could draw a conclusion.

This particular chart first showed the October 17 plan presented by Chrysler, and I will try to get on the side here. This is in my testimony. I think there is a copy of this. Who can't see this? (see Part I, p. 313).

This shows the Chrysler plan, and these numbers represent the cash shortfall that would exist in each of these years, so that in 1980, Chrysler would have a need of $1,554 million above its current financing resources. It would go up to $1.9 billion in 1981 and would peak out at $2.1 billion in 1982.

We made—the Treasury specialists and our outside specialist made a series of analyses and sensitivity tests to see whether or not these figures were realistic in terms of the knowledge we have as to the outlook for the industry and in terms of the report of Booz, Allen.

The first thing that was constructed is what we call Base Case I, which assumed that there would be a reduction of automotive output, automotive market, in the next 2 years. In 1980, the sales of passenger cars would be reduced to 10.5 million instead of 11.1 which had been assumed in the Chrysler plan. And second—I will say that again. I have to correct myself. It reduced the 1980 numbers from 10.5 to 9.3 million. It reduced the 1981 numbers from 11.1 to 10.3 million. There was a reduction of the outlook for the market.

This was included in constructing Base Case I. The second changes that was made was to recognize that there had been a

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labor settlement since the plan was submitted that involved a reduction of labor costs by some $200 million below what had been assumed in the plan.

The plan had assumed that labor costs would be on the same basis as the General Motors settlement. The actual contract entered into would cost $200 million less. On the other hand, the plan as submitted had an unidentified need of $250 million. We offset that, so that we recognized the improvement in labor, but we also recognized that there was no need for some unidentified contingency.

We also reexamined—our experts reexamined all of the Chrysler cost savings and variable costs and in their fixed costs, all of the projected improvements, evaluated in great detail the probability of achieving those cost reductions and make some adjustments which assumed less than 100 percent achievement of those cost savings.

As a result of those changes, we would see that if 100 percent of the volume of sales were assumed—that is, if Chrysler achieved the market share that had been included in its plan, and if the other adjustments we had made were realized, then the peak requirement would be some $2.3 billion, not $2.1. billion.

On the other hand, if Chrysler only achieved 95 percent of its volume, then the peak requirement of cash would be some $3.1 billion. If it only achieved 90 percent of its volume, we would need cash of $3.9 billion.

BASE CASE II

Now from that we moved to Base Case II. This assumed some cost savings projected by Chrysler would not be achieved on the basis of their historic relationships. We did make some adjustments for advertising and sales costs based on the adjustments that we had made, and we assumed in Base Case II that further rebates would be needed in order to market their products during these difficult years. We would see, then, handling their inventory problems by additional rebates.

Now those, I won't go through the identical figures, but you can see quickly then that the cash needs could vary from $3.2 billion up to $4.7 billion.

Then we made one further adjustment to Base Case II, which, looking at the total picture and developing a more—what we believed is a more realistic operating plan, we developed this adjusted Case, which is the Case on which we based our recommendation.

This Case assumes all of the adjustments in Base Case II. It assumes that because certain of the $13.6 billion varying capital spending requirements are not essential to the car business and could be deferred or canceled in later years, that we could reduce capital spending in these 5 years by some $1 billion. There is some net effect from that effort. That would generate only $950 million of cash, even though there would be a deferral of $1 billion of expenditures.

We have also made the other adjustments that I mentioned. This showed that 100 percent achievement of volume would mean a $2.3 billion cash requirement. At a 95-percent volume achievement,

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which would be a $3 billion cash requirement, and the 90-percent volume would be a $3.8 billion.

In our judgment, based on all of these more conservative assumptions, based on reduction of market outlook, based on assuming less than 100-percent achievement of cost reducing efforts, assuming less than 100-percent achievement of sales objectives, it is our judgment that the realistic financial needs of Chrysler would be $3 billion, and that it would be within a reasonable prospect for the company, with financing, to be able to go through the period, make the transition in product, and then be a self-financing company.

On the basis of that, we have proposed on the basis of analyzing the possibilities of sources of financing other than Government-guaranteed loans, that the proper way to approach this was to divide the $3 billion into two parts and to require as an essential element of any government that there be non-Federal financing of $1.5 billion, and that guaranteed loans would be up to $1.5 billion to make up the assured availability of $3 billion.

Mr. Chairman, what is contemplated in such a plan, of course, is not the sudden lending of $3 billion to Chrysler but the entering into of an arrangement for financing that would contemplate the availability and specific commitments for $3 billion of financing, which would then be used as and when needed, so that the company could carry out its operating plan.

The sources of the non-Federal financing would be those who have a financial stake in Chrysler and from certain other financial realizations, that could be achieved through the management efforts. There would be the source from banks and financial institutions. It would be possible for Chrysler suppliers, either directly or through concessions in terms of payments or pricing, to contribute to the $1.5 billion. Labor unions and employees could make further concessions. State and local governments who would benefit by the continued operation would have a stake and could make some concessions and financing. Chrysler dealers who need to maintain their business and would otherwise face losses could do so. Shareholders need to make some contribution, and substantial funds could be achieved by selling off assets which are not essential to the business.

We believe it would be reasonable to expect, should Congress enact this legislation, that it would be possible to assemble a group of financing and concessions and cash contributions that would cover the $1.5 billion that would be the basis for the Federal loan guarantee.

It is our proposal that should this not be achieved, that there would be no basis for the loan guarantee. There are, in our plans, some safeguards as far as the guaranteed loans are concerned.

First, there would need not only to be the $1.5 billion non-Federal financing, but the company would need to submit to us sound operating and financing plans that would be tested by our experts and would be satisfactory to us in laying out the blueprint from which the company could operate.

We would need to have and would require continuation of the present financing commitments, so that in the process, the company would not have a disengagement of the present financing which provides for——

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The CHAIRMAN. Unfortunately, there is a live quorum. Another is a rollcall. We are going to have to go to vote. Senators may be able to stay for awhile. I think some of us should go and vote right away.

Senator HEINZ. I think the Secretary's testimony is very important, and maybe we ought to all go over and all come back.

The CHAIRMAN. Fine. We will stand in recess for 7 or 8 minutes. [Recess.]

The CHAIRMAN. The committee will come to order.

Mr. Secretary, I apologize. The other Senators have not been able to return. In view of the time constraints, we'd better go ahead. I am sure they will be coming in right away.

I am sure you were having a fascinating press conference. I wish I could have heard it.

Secretary MILLER. As a matter of fact, I am disappointed to report that while you were out it was, as I recall, 17 to 2 in favor of the Chrysler plan. [Laughter.]

Apparently your 11 points weren't very persuasive. [Laughter.]

I gave a very resounding rebuttal to them, and it carried the day.

The CHAIRMAN. 17 to 2 in favor?

Secretary MILLER. Of the proposed legislation.

The CHAIRMAN. You must have been keeping score. [Laughter.]

Secretary MILLER. If I may proceed. May I proceed?

The CHAIRMAN. Go right ahead.

Secretary MILLER. I would like to point out, if I could go back 1 second to the previous chart—let's just do that for a second.

The reason I do this, Mr. Chairman, is I want to take the opportunity while we are kind of getting our bearing again in this presentation to get the non-Federal financing sources, and I want to point out that to the degree that these sources can be filled by price concessions, labor concessions, asset dispositions, or an infusion of equity, that is of course the highest priority for us because that kind of source of money is money that will fill in the needs without creating either an interest carrying charge or a repayment schedule, so that the burden on the company is far less. We will try to maximize those.

GOVERNMENT ACCESS TO INFORMATION

To the extent that is necessary, we will look for other loans and other sources of financing. The safeguards for the guaranteed loan, as I was pointing out, we will require a continuing process. Each time there is a commitment and each time there is a guaranteed loan, the updating and the continuing updating of sound operating and financial plans—you pointed out in your comments that we did not have access to Chrysler information. I would say to you that it is absolutely normal, and it will be a part of our financing agreement that we have access to all Chrysler information. We did not put that in the statute because that is normally part of the financing agreement.

We would have continuing submission of plans and continuing access by our experts to examine these plans and to verify them. We would have a continuation of the present financing commit-

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ment so that the underpinnings of the company now to sustain its operations would not be withdrawn.

We would need to make a determination of a reasonable prospect for repayment. We would do this constantly. All of this money will not be put out at once, so we will have a constant opportunity to review. We will have a constant opportunity to make sure the company is on track, and we will have a constant opportunity for corrective actions should it not be on track.

The guaranteed loans would have the normal restrictive covenants, both affirmative and negative, that would restrict what the company could do outside the plan and therefore be sure that it stays on course, and would also have the affirmative requirements that it provide us with certain information and meet certain tests.

We would have and seek for this loan, for this guaranteed loan, such collateral as is available. We would seek priority and even though, as you pointed out, that in order to make the plan work it might be within the power of the Secretary of Treasury to waive some subordination of other credits, we would not have authority and could not put the loan guarantees in any subordinated position. They would have to be at least on a pari passu basis, and we would seek to make them with as high a priority as possible.

We will receive for the loan guarantees the minimum of one-half of 1 percent, which you mentioned. Payments of $7½ million a year on this guaranteed commitment. But that is not the limitation. In the process of negotiating this, we would seek other kinds of compensation which we would think would be appropriate to compensate for any risk that is involved.

In summary, Mr. Chairman, we have tried to show to you briefly and submit further documentation to support why we think assistance is justified in this particular case. We have tried to show you we have not flown blind, and we are not a blind Santa Claus, but we are someone who has done our homework in depth. We have not withheld any presentation to you or any proposal to you, and we have done a thorough study and identified the financial needs, and they are more carefully identified and estimated than in prior proposals.

We believe the proposal we have made is responsible and one in which the taxpayers will assume what is to our view a reasonable risk in exchange for public benefits relating to employment, relating to local impact, relating to ultimate cost to taxpayers that will come if Chrysler should not have assistance and should fail.

Thank you.

[Complete statement of Secretary Miller follows:]

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FOR RELEASE UPON DELIVERY
Expected at 2:30 p.m.
November 14, 1979

STATEMENT OF
THE HONORABLE G. WILLIAM MILLER
SECRETARY OF THE TREASURY
BEFORE THE
SENATE COMMITTEE ON BANKING, HOUSING
AND URBAN AFFAIRS

Mr. Chairman and Members of this distinguished Committee: The Administration seeks your support for authority to provide up to $1.5 billion in Federal loan guarantees for the benefit of Chrysler Corporation on the condition that the Company raise on its own $1.5 billion of new cash or savings from third parties on an unguaranteed basis. We believe that this $3.0 billion will finance the Company through 1983 and enable it to reemerge as a commercially viable, self-financing entity.

My testimony will cover four major areas: first, the arguments for Federal financing assistance in this case; second, the Company's current business and financial situation; third, its financing needs; and fourth, our specific legislative proposal. Attached are appendices that provide additional detailed information on certain issues.

REASONS FOR FEDERAL FINANCING ASSISTANCE IN THIS CASE

This Administration approaches Federal financing assistance to private corporations with great caution. Normally, corporations should be financed in the private markets, but there

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are cases in which exceptions should be made. We think that Chrysler represents one such case.

Chrysler is the tenth largest industrial corporation in the United States. Its 1978 revenues were $13.6 billion, generated almost entirely from the sale of 1.2 million cars and 490,000 trucks. Its employment at the beginning of this year was 131,000 and today approximates 113,000. Approximately a quarter of a million others are employed by Chrysler dealers and principal suppliers. In addition, the Company is the largest employer in Detroit and operates 25 of its total of 44 production facilities in the State of Michigan.

The alternative to a Federal aid program appears to be reorganization under the bankruptcy laws. Such reorganization would be costly. On the other hand, loan guarantees authorized now might prove to be costless if they are based on operating and financing plans which cause Chrysler to emerge from its present problems as a viable concern which no longer needs governmental assistance.

Our view of the costs of bankruptcy may be less bleak than some of the "worst case" predictions which have been publicized recently. But those costs would probably be greater than the cost of this proposed legislation. In any event, those costs, as summarized below, should be avoided if possible. They are described at length in Appendix 1.

- A Chrysler bankruptcy could cost the Federal Government more than $1.5 billion in 1980 and 1981 alone. We estimate the Federal cost for those years at a total of at least $2.75 billion, an amount that includes loss of revenues, unemployment claims, welfare costs, and other incidental costs. Furthermore, there would be a substantial cost to the state and local governments. Moreover, this does not take account of any cost to the Pension Benefit Guarantee Corporation on Chrysler's unfunded vested pension fund liabilities of approximately $1.1 billion, which would ultimately be borne by other pension fund sponsors.

In addition to these out-of-pocket costs, other serious adverse effects of bankruptcy would include:

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- A serious direct impact on the people that work for Chrysler, its dealers, its suppliers, and for their families. There are now approximately 113,000 Chrysler employees, about an equal number of employees of its dealers, and 150,000 employees of its suppliers. Many would be affected. Conservatively, unemployment would increase by 75,000 - 100,000 during the 1980-81 period.

- A serious impact on Detroit, the State of Michigan, and other areas in the Midwest region as well as specific localities around the country -- not only where Chrysler has plants, but in places where automotive suppliers and dealers operate. Substantial unemployment and economic distress would occur in certain areas. More than half of Chrysler s workers (over 60 000 employees) are located in Detroit; and there are an additional 20,000 Chrysler employees in the rest of Michigan, with more than 40 000 supplier employees located in Michigan. Unemployment in the Detroit area could increase up to approximately 4 percentage points from its already high level of approximately 8 percent.

- The need to maintain a competitive domestic auto industry. Without Chrysler the two remaining major domestic producers would represent a very narrow competitive base This would be especially troublesome given current concerns about the strength of the competitive process and the high barriers to entry. Chrysler has exercised an important competitive role in challenging GM, Ford, and others throughout the market, despite its current lack of profitability. Its recent success in the subcompact market is indicative of its competitive importance.

- The potential loss of Chrysler's current, and planned increases in capacity in the small car market, at a time when the amount of small car, domestic capacity is critical for trade, environmental and other reasons.

- Important, negative effects on the U.S. balance of payments because Chrysler's production would be displaced by substantial foreign imports. The negative impact could be up to $1 billion per year through 1981 from increased imports, largely of

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subcompacts but also of other models. Automobiles are a crucial industry, competing on a world-wide basis.

Our conclusion is that Chrysler can recover as a result of this proposed financing plan. It makes more sense than a reorganization in bankruptcy. It is not clear that the Company's consumer franchise could survive a reorganization in bankruptcy and that a viable automobile company could emerge.

CHRYSLER'S BUSINESS AND FINANCIAL CONDITION

Chrysler's current predicament reflects the long term transformation of the U.S. auto industry, Chrysler's difficulties in coping with it, and the particular 1979 weakness in the auto and the truck industries.

The combination of radical changes in industry product and mix dictated by foreign competition, energy cost changes, and Federal environment and safety regulations has indicated a basic redesign of the automobile. By far, the most significant aspect of this has been the market shift toward small fuel efficient cars. Such cars represented 16 percent of the total market in 1968; now they represent 35 percent, and are projected to increase to 60 - 80 percent by 1985.

It is estimated that the industry as a whole will spend approximately $80 billion over the 1979 to 1985 period to implement this product line transformation. These amounts are so large as to stretch the financing capacity even of General Motors and Ford, both triple-A rated borrowers, let alone Chrysler. Indeed, while Chrysler's 1980-1985 capital spending is planned at $13.6 billion, one of the larger five year capital budgets in the U.S., this is only 40 percent of GM's planned spending over the same period.

It is exceedingly difficult for Chrysler to finance this transformation. The Company has long been the weakest of the three major domestic manufacturers, with a high cost structure, small market share, greater balance sheet leverage and other fundamental weaknesses. Its net profit margin for the period 1969-1978 has averaged only 0.7 percent. Chrysler incurred heavy losses during the last half of this period, while GM and Ford averaged a 5.1 percent and 3.2 percent net margins. For the ten year period ending in 1978, Chrysler's aggregate earnings were $720 million, a very marginal return

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on its large revenue and asset base. It experienced losses of more than $200 million in both 1975 and 1978. Appendix 2 provides additional historical information.

Until recently, Chrysler had intended to address this problem on its own. Beginning in 1977, the Company initiated a major capital expenditure program to upgrade plant and equipment and develop new products to permit it to compete in the market of the 1980s. In addition to compensating for past deferrals and making other improvements, this program was aimed at improving its product line and meeting Federal regulatory requirements. To finance this program, Chrysler began a retrenchment in which it disposed of most of its foreign operations and took other actions to increase the availability of funds.

Chrysler's ability to generate funds through earnings was eroded, however, by the gasoline crisis of this past spring and the economic slowdown. Domestic automobile industry sales have been slow in 1979, falling 9 percent from 1978 levels through September, and 17 percent below last October's rate. Chrysler's sales have been even weaker, however, falling by 14 percent and 24 percent for the two respective periods.

Some of the earlier losses in volume were recouped through an aggressive rebate program. However, the rebates resulted in substantial losses on sales. The Company lost $721.5 million through September and projects losses of $1,073 million for the year and $482 million for 1980.

Chrysler's worsening financial situation has prompted some creditors -- both lenders and suppliers -- to withdraw or to seek to reduce credit in an attempt to protect their positions against a failure.

CHRYSLER'S FINANCING NEEDS

Let me turn now to a review of Chrysler's aid request and our analysis of it and of the Company's future.

The Company's Request

On October 17, Chrysler submitted a request for up to $750 million in Federal loan guarantees. This amount reflected

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the Company's attempt, at Treasury's request, to minimize its need for Federal financing help and to address various other questions posed by Treasury.

The Chrysler aid request was based on a six year business and financial plan. The Company's strategy is to remain a full line automobile and truck producer. It projects capital spending of $13.6 billion over this period to modernize that product line and to comply with regulatory requirements. Furthermore, operating losses are projected through 1980 before a return to profitability in 1981.

The plan also forecasts an unfunded, cumulative cash flow deficit of $2.1 billion through 1983. This assumes the continuation of those financing commitments which existed on October 17. Any reduction in these commitments would increase the Company's need for Federal financing assistance.

The October 17 plan assumes that Chrysler would meet $1.350 billion of the $2.1 billion shortfall from non-Federal sources: $850 million from "asset dispositions, financial institutions, state and local governments and others;" and $500 million from "constituents and employee participation."

The bulk of the Federal financing assistance would be required during 1980 and 1981, when Chrysler projects financing shortfalls of $1.5 billion and $400 million, respectively, with an additional shortfall of $201 million in 1982. A return to positive cash generation is projected beginning in 1983. The schedule for Federal assistance is unspecified, since it would depend on the timing of assistance from other sources.

Booz, Allen & Hamilton, the Company's consultants on product planning, have recently expressed their view that the Company's funding needs may exceed the levels of the October plan. On October 22, these consultants issued a report which recommends provision for contingencies of up to $700 million to meet variations that are "more probable than not" in industry sales, shifts in market shares, and ability to achieve profit improvements. This $700 million addition to Chrysler's original estimates of financing needs means a total three year need, in Booz Allen's view, of at least $2.8 billion.

Booz Allen also recommends additional operating cost reductions, and a detailed study of alternative capital

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expenditure and product strategies to help reduce Chrysler's capital needs. In this regard, it indicated that the Company itself is considering alternate product plans to reduce its needs should other risks materialize.

The Administration's View on the Company's Financing Need

Based on the October plan, Treasury has concluded that the appropriate level of Federal loan guarantees is $1.5 billion, rather than the $750 million which was originally requested. This reflects our judgment that the Company's gross financing need over the 1980-1983 period approximates $3 billion and that up to, but no more than, half of this amount should take the form of Federal loan guarantees.

Several factors have led to this recommendation for significantly larger financing assistance. One major reason has been the recently worsened outlook for the auto industry in 1980 and 1981. There have been major industry changes. For example, Data Resources, Inc., has dropped its forecast of auto industry sales to 9.8 and 10.0 million units for 1980 and 1981, respectively, from its earlier projection of 10.6 and 10.3 million. Furthermore, other forecasters have similarly reduced their estimates and Chrysler itself has also done so. A second factor is the results of Treasury's own analysis of the Company's financing needs, which was completed last week with the help of outside experts. Let me turn now to a review of that analysis.

Nature of Treasury Review

In our review of Chrysler's financing request, we have been assisted by the accounting firm of Ernst & Whinney, which assigned more than 25 professionals to this matter, and by John C. Secrest, a former group vice president of American Motors Corporation.

Throughout our efforts, we also had regular consultations with other Federal agencies on matters within their expertise, and special assistance from the staff of the Federal Reserve System. In addition to Chrysler submissions which are now public information, we have analyzed, reviewed and challenged private Chrysler information and internal plans and had numerous meetings with Chrysler officials and staff.

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Together with our consultants, we reviewed historical data on Chrysler for insights into its operations and any implications that might bear on future projections. We also studied the Company's accounting practices and control and management systems. We then addressed the plan's revenue projections, the underlying profit improvement program, and related capital expenditure program since these are the key elements.

A data base and computer model were prepared to test the Company's projections at varying levels of industry sales, market share and profit margins. We tested Chrysler's projections at 95 percent and 90 percent sales achievement levels in order to clarify the potential range of results. And finally, the plan was adjusted for possible shortfalls in profit improvement programs, and other programs, and that series was also tested versus the 95 percent and 90 percent achievement levels.

A complete exposition of our analysis of the October 17 Chrysler submission is attached as Appendix 3.

Base Case 1

Specifically, the Chrysler submission adjusted for the following major changes became Base Case 1:

- Projected industry sales for 1980 and 1981 were reduced from 10.5 million and 11.1 million units to 9.3 and 10.3 million, respectively.
- The wage concessions of $200 million for 1980 and 1981 incorporated in the recent UAW contract were included. The October plan had assumed a GM-type settlement.
- Cost savings from Chrysler's variable margin improvement (VMI) and fixed cost reduction (FCR) programs, were reduced from $6.87 billion to $6.0 billion over the six-year period of the plan.
- Correction of computational and other errors.

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Base Case 2

Second, a more drastic revision of the Chrysler plan Base Case 1 based on our best judgment of Chrysler's likely ability to achieve the plan's basic assumptions. These revisions required the following major changes.

- Reduction of projected savings in Chrysler's VMI program in light of its ability to achieve its goals by reference to its existing programs and its history of difficulty in obtaining cost improvements.

- Adjustment of the FCR program. Advertising and sales costs were modified to reflect the projected volume reductions. An assumed cost was added for additional rebates that we believe may be necessary in 1980 and 1981.

Adjusted Base Case 2

A third case makes two other adjustments and addresses possible reductions in the Company's spending, as described below. Our judgment is that this "Adjusted Base Case 2" approach presents the most realistic operating plan.

This case adds back the $200 million UAW wage contribution to be consistent with using the Company's October 17 submission as the base. This addition is offset by deducting a $250 million cushion in cumulative contingency reserves through 1983 that Chrysler included in its submission. Elimination of this cushion was justified by the much more conservative assumptions underlying our Adjusted Base Case 2.

More than $1 billion in 1981, 1982 and 1983 capital spending largely for post-1983 purposes, could be eliminated without resulting in a fundamental reduction or "downsizing" of the Company. This reduced capital spending would save approximately $950 million in cash by 1983.

The following table compares cash shortfalls under the Chrysler October 17 plan and each of the adjusted plans I have described:

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Cumulative Funds Required
($ million)

	1980	1981	1982	1983
Chrysler Plan 10/17	1,554	1,915	2,116	2,113
First Base Case				
100% Base Volume	1,472	1,959	2,266	2,342
95%	1,571	2,230	2,773	3,133
90%	1,669	2,502	3,280	3,923
Second Base Case				
100% Base Volume	1,593	2,308	2,860	3,261
95%	1,689	2,572	3,351	4,025
90%	1,784	2,836	3,843	4,789
Adjusted Base Case 2				
100% Base Volume	1,593	1,994	2,196	2,309
95%	1,689	2,258	2,687	3,073
90%	1,784	2,522	3,179	3,837

From these analyses Treasury concluded that Chrysler needs $3 billion. Based on the Company's estimates, its seems reasonable to suppose that the Company could raise at least half that amount.

We considered the potential for a major "downsizing" of the Company, as American Motors has done. The nature of Chrysler's operational structure and dealer system does not appear to permit this over the short term, however without a severely disruptive effect On the other hand there may be some potential for alternatives of this nature over the long term, and we intend to pursue these Chrysler has agreed to report on such alternatives by mid-December If further study reveals that a less expensive solution can be devised without impairing Chrysler's long-term viability, we would be favorably disposed toward it since a less ambitious plan would entail a lower level of government involvement.

Treasury's judgment is that a $3 billion financing plan has the potential of assuring the Company's viability. There can be no assurance of success with this or any other plan, but we believe that the financing approach is sound and that the underlying business plan can remedy Chrysler's

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weaknesses. Nonetheless, even with $3.0 billion, Chrysler's situation will remain very tight and the Company must consider achieving additional efficiencies to provide adequate additional cushions against potential long-term risks.

Regulatory Burden

In formulating this $3 billion plan, the Administration has not attempted to justify Federal assistance on the basis that Chrysler is burdened by excessive costs of complying with Federal environmental and safety regulations.

- It would raise difficult policy problems, both with respect to the purposes of the regulations and equity vis-a-vis other producers. The Administration has already sought to eliminate unnecessary burdens of regulation.

- Regulation is only one of the many elements and costs in the environment in which Chrysler operates. All companies must bear the cost of regulation in their industries.

- There has been no persuasive evidence that Chrysler would not be in the same dilemma now without these regulatory requirements. Chrysler has been unable to quantify adequately the portion of its financing needs which relate to compliance with regulatory requirements.

THE ADMINISTRATION'S LEGISLATIVE PROPOSAL

Our analysis shows that Chrysler requires $3 billion of financing to make the transition to the auto market of the 1980's. The primary building block for this financing must be $1.5 billion in commitments from non-Federal sources. The United States would provide the balance needed, up to $1.5 billion. In this way, the Federal Government would serve as a partner to these private groups, not the Company's dominant financier.

By requiring appropriate levels of contributions from all those who have a financial stake in the health of Chrysler, we test whether these contributions can really turn Chrysler into a viable concern, capable of repaying its new debt Presumably, private investors will not provide additional financing to the Company unless they are convinced that Chrysler can repay the new amounts borrowed.

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The Federal loan guarantees would be made available, therefore, only if Chrysler obtains at least $1.5 billion of new funds from non-Federal sources. If the non-Federal portion is not obtained, Federal loan guarantees would not be provided since the resulting shortfall would frustrate this rescue effort.

Only new resources beyond those considered by Chrysler in determining the $2 1 billion shortfall on the October 17 plan would count against this non-Federal assistance Effectively this would freeze into place at least those short-term credits outstanding on October 17. For example, to the extent that any bank or other credit resource of the parent is reduced subsequent to October 17, it must be replaced to maintain the base of credit which then existed.

To qualify, the non-Federal assistance is to be from the following types of sources: (i) financing commitments or concessions from parties with an existing financial stake in Chrysler's health; (ii) capital obtained through merger or sale of equity securities, or otherwise, and (iii) the proceeds of asset dispositions.

The specific level of assistance from any category or participant would be left to the Company and its interest groups to work out; however, to the extent practicable, we expect Chrysler to obtain assistance from all sources, consistent with their stakes in Chrysler and, as a practical matter, its needs should require all to participate. Probably, the most immediate and most significant assistance would be from all those that would be directly affected by failure:

- Banks, financial institutions and other creditors who would benefit by avoiding a default or bankruptcy and who would continue to profit from their relationship with Chrysler. In addition to firming existing commitments for the period of Federal aid, they could help satisfy this need by providing additional financing and restructuring existing debt to reduce debt service or subordinate their loans so as to facilitate additional more senior borrowings.

- Suppliers who would benefit in a similar way, and who might liberalize their credit terms and provide price concessions.

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- Labor unions and employees who would benefit from continued employment, could provide additional compensation and work rule concessions or provide direct financing.

- State, local and other governments who would benefit by the revenue from Chrysler's continued economic activity and would want to avoid the costs of its failure, might provide direct loans, grants, or tax concessions.

- Dealers who would avoid current losses and retain the potential for future earnings, might reinvest part of their profit in Chrysler.

- Shareholders and other investors who would avoid the potential for immediate loss and retain the potential for future earnings, might make additional investment in the Company or have their investment diluted.

- Asset dispositions will also provide a major source of cash to the Company. The Company owns several large assets which are marketable and where continued ownership by Chrysler is not crucial to the Company's business success.

In addition, an equity capital infusion is important to strengthen the Company, since the Company requires a much larger equity base than it now has. Chrysler has been unsuccessful in its efforts in this area in part because of its current precarious position. With Government aid, it should be a more attractive candidate for equity financing. We intend to make certain that Chrysler pursues this avenue vigorously.

Safeguards

The bill includes specific provisions to maximize achievement of the aims of assistance and to protect the Government's position:

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- Sound Operating and Financial Plans. Before a guarantee commitment could be issued, Chrysler would be required to submit a satisfactory four-year operating plan for the period through 1983 which demonstrates that the Company will emerge viable and self-financing thereafter. It would also be required to provide a financing plan through 1983 which demonstrates that it can satisfy its projected financing needs under the operating plan, including assurance of at least the minimum of $1.5 billion from other sources. Both the operating plan and the financing plan must be accompanied by satisfactory assurances of feasibility and be updated at least annually so long as any guarantees are outstanding.

  Before actually guaranteeing any loan, the Secretary must find that those conditions of the plans continue to be satisfied.

- Continuation of Present Financing Commitments. Maturities on the present financing commitments, and the $1.5 billion of new commitments, which will be obtained, must be no shorter than the maturities on Federal guarantees involved. The guarantees may not be issued at a faster rate than the other commitments are utilized.

- Reasonable Prospect of Repayment. Throughout, the bill includes provisions to further minimize the financial risk to the United States. Before committing and issuing guarantees, the Secretary must determine that there is reasonable prospect for the repayment of a guaranteed loan. In addition, the guaranteed loans must mature by 1990, in order to preclude Chrysler's long-term dependency on Federal aid.

- Restrictive Covenants. Guarantee and loan agreements are to include all affirmative and negative covenants and other protective provisions that are usual and appropriate to transactions of this nature; these terms will not be amended or waived without the Secretary's consent.

- Security Required. Unless the Secretary otherwise determines necessary and finds there to be adequate assurance of repayment, security must be obtained, existing loans must be subordinated, and dividends prohibited. The Secretary can waive the technical

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bankruptcy priority of the United States only if he also finds there to be adequate assurance of repayment without the priority; and, he may not waive it so as to subordinate the position of the United States.

- Payments to the Government. The Government would receive an adequate return for its participation. At a minimum, it must receive a guarantee fee of at least one-half percent per annum. The Secretary could also negotiate additional compensation. Chrysler would be required to pay an appropriate interest rate on the loan. If the program is successful, it will produce no direct cost to the Government.

The negotiation of the non-Federal financing for Chrysler will be a long and complex process. Our experience in the New York City guarantee program demonstrates the need for flexibility to accommodate the variety of problems which inevitably arise in this process. Thus, while the legislation builds in a number of these protections for the Federal investment, it also permits sufficient flexibility to permit the financing package to be assembled.

Employee Stock Ownership

There has been considerable discussion of linking Federal assistance to the establishment of an employee stock ownership program (ESOP). Employee ownership of industrial enterprises provides employees a direct stake in the profitability of the employer.

Certain of the ESOP proposals made to date, however, have been troublesome because they would use part of the Federal guarantees to support loans to an ESOP trust for the purchase of Chrysler stock. The loans would be repaid solely from Chrysler contributions to the trust. The employees get the stock, but pay nothing for it. In the Chrysler situation, it is important that significant contributions be made by each group with a substantial economic stake in recovery of the Corporation. Thus, any grant of stock to Chrysler employees must be tied to commensurate cash or cash-like contributions from them.

The Administration could support an ESOP for Chrysler which involves:

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- Payment by employees for a substantial portion of the value of Chrysler common stock purchased. This payment could be made over a short period of time through a payroll deduction program; and

- Availability of participation on a fair and non-discriminatory basis.

Payment of a reasonable purchase price provides Chrysler needed equity capital. Also, the bargain purchase nature of the plan would mandate a sacrifice from existing shareholders by diluting their present stake in the company.

CONCLUSION

In closing, let me emphasize that no guarantees will be issued until the full amount of non-Federal assistance is committed. This means that, as in the case with the New York City assistance program, the ultimate resolution of the Chrysler problem may extend beyond enactment of this legislation. It may be resolved only after extensive negotiations that end in legally binding loan agreements and financial commitments.

In the last analysis, there are three key points underlying our recommendations to Congress on Chrysler. First, the Administration believes that Federal financing assistance is justified in this case. Second, estimates of the Company's financing needs have been carefully prepared and appear reasonable. Finally, we have submitted responsible legislation which would adequately protect the Federal interest. We urge your support for it.

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TREASURY STAFF ANALYSIS OF ECONOMIC IMPACT OF A SHUTDOWN OF THE CHRYSLER CORPORATION

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Office of the Assistant Secretary for Economic Policy

Office of Financial Analysis

November 7, 1979

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SUMMARY

The following provides an assessment of the impact on aggregate economic activity of a shutdown of the Chrysler Corporation. It also outlines potential impacts on the Detroit area where Chrysler facilities are heavily concentrated. In summary:

- Sales and production of motor vehicles are expected to be depressed in 1980 and 1981 as the economy moves through a period of slower economic activity, followed by a moderate rate of recovery.

- The level of demand for motor vehicles in the two years is likely to be such that other domestic producers will have sufficient capacity to make up production losses stemming from a Chrysler shutdown. Thus, assuming that would be purchasers of Chrysler products will buy from other U.S. manufacturers rather than switch to products of foreign origin, then the greatest effects of closure of Chrysler facilities would be on the distribution of employment by locality and among manufacturers rather than on total job loss in the motor vehicle industry or the economy.

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- Some loss of market to foreign producers could ensue, and this might be substantial should demand for subcompact model cars be exceptionally strong so that Chrysler's share of this market could only be met through increased imports. A scenario was constructed on this assumption and on the assumption of limited loss of share in other market segments. Total GNP would be reduced by about $4 billion in 1980 and approximately $6 billion in 1981 from what would otherwise develop (about 0.15 percent and 0.2 percent, respectively, in the two years). It is calculated that the Federal deficit might be widened by about $1 billion in CY-1980 and by approximately $1-3/4 billion in CY-1981. The balance of payments surplus would be reduced by just over $1 billion in each year. Most of these impacts would be expected to fade beyond 1981, unless lack of availability of U.S. autos in 1980 and 1981 would lead to a permanent shift in preferences in favor of foreign products.

- Some adverse impacts on aggregate economic activity could be expected, even if domestic producers have sufficient capacity to meet Chrysler's share of the market and there is no shift in demand to foreign products. These impacts would reflect job loss by overhead personnel and an interruption of the capital spending stream until such time

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as other producers bring offsetting capital outlay programs into being. Except for balance of payments effects, which then would be negligible, economic impacts are calculated at roughly three-fifths those of the foregoing.

- A Chrysler shutdown would have substantial and relatively long-lasting impacts on the Detroit metropolitan area, where activities of Chrysler and its suppliers are heavily concentrated. Other areas would be severely affected, though in a number of cases Chrysler facilities in those localities would be attractive to other firms and would be converted to other operations.

- The highly competitive structure of markets for small cars would probably be little affected should Chrysler no longer be a competitive force, unless Chrysler facilities for producing small cars were acquired by one of the major U.S. producers. However, in markets for larger automobiles, the already dominant position of the leading producer would be enhanced.

No attempt was made in this paper to assess the less tangible and possibly detrimental impacts on general business and consumer confidence that a Chrysler shutdown might induce. If closure should come during a period of rapid change and uncertainty in the business climate, such impacts could be substantial.

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THE CHRYSLER CORPORATION IN THE U.S. ECONOMY

- The Chrysler Corporation in 1978 ranked tenth in sales among all U.S. industrial corporations. Total sales in the U.S. were $12.9 billion, equivalent to 0.6% of GNP.

- Purchases by the Chrysler Corporation of materials and services from domestic suppliers were placed at $7.9 billion in 1978.

- Employment by Chrysler in the U.S. in May of this year was 131,000, of which about 99,000 were engaged in motor vehicle operations, 12,000 in central offices including product development, 7,000 in sales and marketing, and 12,000 in other operations. The combined total of workers in motor vehicle production and central office staff represented 0.1 percent of total establishment employment in May and 0.6 percent of employment in manufacturing. The Bureau of Labor Statistics estimates that 1.0 million workers were employed in the motor vehicle and equipment industry in May.

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- As of late September, employment at Chrysler had been reduced to 113,000, of which about 82,000 were engaged in motor vehicle operations, or 17,000 less than in May. Staffs of central offices and sales and marketing had each been reduced by about 300 from May.

- Wage and salary payments by Chrysler in the U.S. were $2.9 billion in 1978, representing 0.3 percent of total wage and salary payments.

- Chrysler dealers as of May 1979 employed 150,000 persons. Total employment by retail motor vehicle dealers for that month was placed at 900,000.

- Chrysler is the third leading U.S. producer of motor vehicles. Its shares of the automobile and truck markets have been declining over the past few years. Of total new cars sold in 1978, 10.1 percent were Chrysler built. The corresponding share of truck sales was 11.8 percent. Chrysler shares of both markets are down sharply so far this year.

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Sales of new automobiles in the U.S.
(thousands of units)

			Chrysler*		
				Percent share	
	Total	Domestic model	Number	Total	Domestic model
1973	11,437	9,676	1,529	13.4	15.8
1974	8,866	7,454	1,204	13.6	16.2
1975	8,640	7,053	997	11.5	14.1
1976	11,110	8,611	1,302	11.7	15.1
1977	11,185	9,109	1,220	10.9	13.4
1978	11,311	9,312	1,146	10.1	12.3
1979:					
Jan.-Oct.	9,153	7,168	836	9.1	11.7

Sales of new trucks in the U.S.
(thousands of units)

1975	2,478	2,249	299	12.1	13.3
1976	3,181	2,944	430	13.5	14.6
1977	3,675	3,352	469	12.8	14.0
1978	4,109	3,773	486	11.8	12.9
1979:					
Jan.-Sep.	2,708	2,372	265	8.8	11.2

* Excludes sales of captive imports produced by foreign manufacturers.

Note: Data on trucks sales in October are not yet available.

Source: Ward's Automotive Reports and Yearbooks.

o The motor vehicle industry is highly cyclical. Typically, swings in motor vehicle production are several times as wide as swings in the real gross national product for the entire economy, as may be noted from Table 1, attached. Motor vehicle production of Chrysler has typically swung more widely than that of the total industry. (The standard deviation of year-to-year

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percentage changes for Chrysler was more than one and one-half times that for the entire industry.) Both employment and corporate profits of the industry are highly volatile, as may be noted from the table.

THE OUTLOOK FOR MOTOR VEHICLE SALES AND PRODUCTION

The potential impact on the economy of reduced operations or a complete shutdown of Chrysler operations depends heavily on the outlook for motor vehicle sales and production. If the industry is likely to be operating at close to full capacity, then a closure of a significant portion of that capacity would lead to reduction in overall supplies and adversely affect the performance of the economy. On the other hand, if the industry is likely to be operating sufficiently below capacity for an extended period so that other producers are able to increase production to offset lost Chrysler output, and if those who would have purchased Chrysler products switch to products of U.S. rather than foreign manufacture, then effects on the overall economy should be considerably smaller, beyond initial transitory impacts.

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Recent developments in motor vehicle markets

Automobile sales turned down quite sharply this spring in the aftermath of short gasoline supplies and resulting queues. Sales had totalled 11.3 million units in 1978, reached a seasonally adjusted annual rate of 11.6 million units in the first quarter of this year, then fell to a low of 9.4 million in June. Sales of trucks followed a similar pattern, with weakness concentrated in markets for light trucks, which may be used for personal as well as business purposes and which account for the bulk of truck sales.

Motor vehicle sales

	Automobiles			Trucks	
	Total	Domestic models	Import models	Total	Light*
	(----------millions of units----------)				
1977	11.2	9.1	2.1	3.5	3.1
1978	11.3	9.3	2.0	3.9	3.6
	(-----seasonally adjusted, annual rate----)				
1979-I	11.6	9.3	2.3	3.8	3.4
II	10.6	8.1	2.5	3.0	2.6
III	10.8	8.6	2.1	3.2	2.8
Apr.	11.1	8.5	2.6	3.3	2.8
May	11.1	8.4	2.6	3.1	2.7
June	9.4	7.2	2.3	2.8	2.4
July	10.5	8.3	2.2	2.9	2.5
Aug.	11.0	8.9	2.1	3.2	2.9
Sep.	10.8	8.7	2.1	3.3	3.0
Oct.	9.4	7.3	2.1	n.a.	n.a.

* Light trucks are defined as less than 14,000 lbs. gross vehicle weight.

Source: Bureau of Economic Analysis, Department of Commerce.

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There was partial recovery in auto and truck sales in July, August, and September. Some of this recovery apparently was associated with improved availability of gasoline and consequent disappearance of gasoline lines. However, much of the recovery has been the result of sales incentive programs designed to reduce inventories which reached record levels in July for both autos and trucks. The incentives included direct rebates to customers in the case of Chrysler but primarily were in the form of discounts to dealers which then could be passed on to customers.

This sales effort was quite successful, and the inventories of new cars were reduced on a seasonally adjusted basis by 230,000 units in August and September. Domestic model sales averaged a 9.3 million annual rate during the period late July through the first two-thirds of September while these incentives were in full force, versus 7.8 million during the period May through July 20. Some of these sales may have been purchased at the expense of future sales, so that a drop in the sales volume in the fourth quarter of this year is likely. (October sales of domestic model cars were down to a 7.3 million annual rate.) Sales tend to be quite sensitive to price influences in the short run when a sharp change in prices can be readily predicted. This was the experience in the summer of 1974 when announcement well in advance of

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large price increases for the forthcoming model year resulted in a burst of sales, followed by a severe decline. Similarly, domestic model sales fell by 400 thousand units at an annual rate between the first and second quarters of 1975, following the end of rebate programs in force early that year.

Incentives were also provided during the summer in the market for light trucks. These incentives contributed to a reduction in inventories of light trucks of an estimated 180,000 units on a seasonally adjusted basis in August and September.

Forecasts of automobile sales in 1980

Economic forecasts are generally for a moderate recession in the U.S., with a trough in the first half of 1980, followed by a relatively moderate rate of recovery. Such forecasts are conditioned by the relative absence during the recent expansion of the types of excesses out of which sharp contractions have emerged in the past. The prospect that the downturn will not be steep has similarly led forecasters to expect a relatively moderate recovery. In the past, sharp recoveries have generally emerged out of the correction of imbalances during prior severe downturns. Forecasts of moderate recovery also are based on the prospect that growth of real household incomes will be

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retarded by (1) the tendency of inflation to raise effective personal income tax rates and also by (2) the rising costs of energy.

In addition to the likelihood of slow growth of real disposable personal income during 1980 and 1981, other variables which have been shown to be determinants of automobile sales are likely to act as negative elements in automobile demand.

- The price index of gasoline at retail in September had increased 53 percent from the average of 1978, or 39 percentage points more than the increase for the total Consumer Price Index. The relative price of gasoline is expected to continue to increase into the indefinite future. Overall, costs of operating a car, including fuel, are expected to rise more rapidly than all prices.

- Unemployment rates and other measures of labor market conditions are likely to deteriorate, at least into 1980.

- Interest rates on automobile installment loans are expected to rise over the near term and credit terms to tighten.

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Forecasts of four of the leading private forecasting concerns are summarized in the tabulation below. All but the Townsend-Greenspan forecast were made subsequent to the Federal Reserve actions of early October. Flat to declining real GNP year-to-year in 1980 is associated with a moderate decline in automobile sales to about 9.6 million units from the 10-1/2 to 10-3/4 million that appear likely for 1979. Only moderate increases in automobile sales are projected for 1981.

Summary of economic forecasts

	Forecast date	Real GNP growth	Growth of real spendable income	Auto sales
		(-----percent change---)		(millions)
		1980		
Data Resources, Inc.	(10/24)	-1.4	0.4	9.8
Chase Econometrics	(10/23)	-1.4	0.0	9.1
Wharton EFA	(10/30)	0.0	0.1	9.8
Townsend-Greenspan	(9/17)	-1.0	1.3	9.5
Average		-1.0	0.4	9.6
		1981		
Data Resources, Inc.		3.3	3.3	10.0
Chase Econometrics		2.7	1.7	9.8
Wharton EFA		3.4	1.8	10.7
Average		3.2	2.4	10.2

The Chase, Wharton, and Townsend-Greenspan forecasts all are based on the assumption of enactment of tax reduction effective during the first half of 1980. The income elasticity

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of spending on cars is quite high in the short run. Assuming an elasticity on the order of 3, 1980 sales in those three forecasts have been boosted directly by up to 250,000 units by the assumed tax reductions. The Data Resources forecast is based on the assumption of a tax reduction early in 1981.

Outlook for composition of sales

Because of its volatility, a substantial error band surrounds any forecast of the auto sales series. Attempts to project the composition of sales involve even greater uncertainties. The chart on the next page presents quarterly movements of percentage shares of U.S. automobile sales by size class. Annual figures are presented in Table 2, attached. Certain points may be noted:

- The share taken by full-sized cars has been declining over time, and cyclically has been weak during periods of depressed activity, as occurred during 1975, and also during periods of uncertain availability of fuel.

- The share taken by mid-sized cars has trended upward, at least through early 1977. Its share too appears to have been depressed by the recent short supplies of gasoline.

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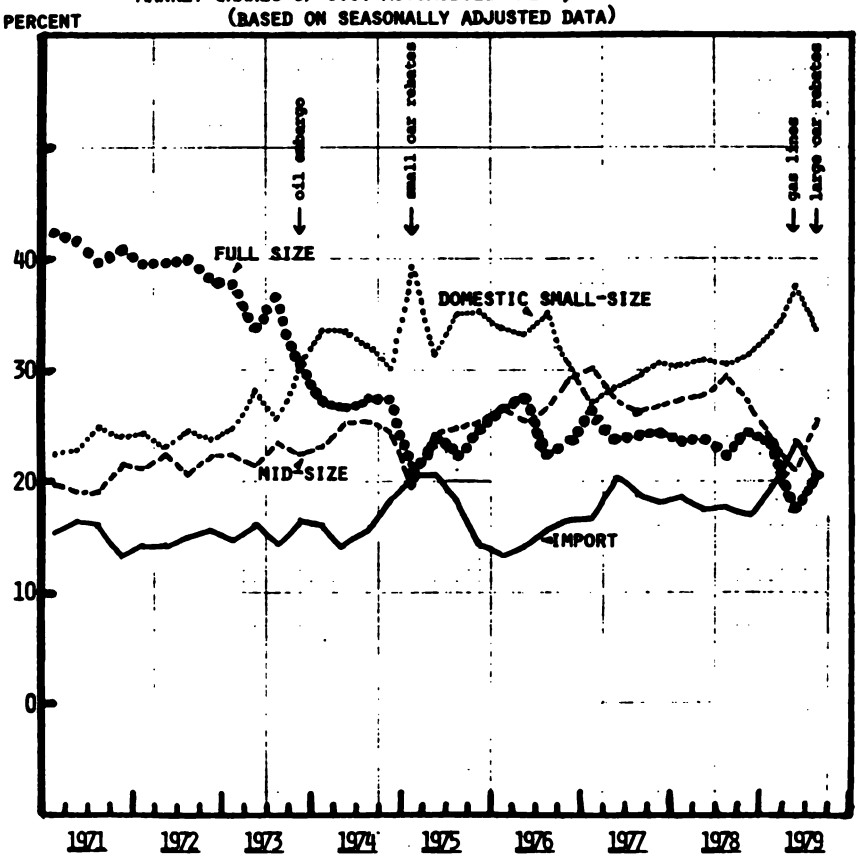
MARKET SHARES OF U.S. AUTOMOBILE SALES, BY SIZE CLASS
(BASED ON SEASONALLY ADJUSTED DATA)



SOURCE OF DATA: BUREAU OF ECONOMIC ANALYSIS, DEPARTMENT OF COMMERCE

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- The share of small domestic cars exhibits an upward trend, and the share tends to rise during periods of weak economic activity and during periods of uncertain availability of fuel.

- The import-model share has gradually been rising, and it too increased during the recent period of uncertain availability of gasoline.

While point estimates of market shares would be subject to a wide band of error, the foregoing provides some guidance as to the likely composition of the market in the next two years. Generally depressed demand for automobiles should be accompanied by a relatively larger market share for smaller domestic cars and imports. The share of the latter should benefit from the fact that prices of 1980-model imported cars are being increased on the order of 3 percent or less, or substantially less than increases being posted for domestic small cars. (For example, press reports state that the price of a Chevette is to rise 8.6 percent at the start of the 1980 model year, the price of a Pinto by 10.1 percent, and prices of four-door Omni's and Horizon's by 10.2 percent.) Increases in the relative price of gasoline will favor the market share of the smaller cars, both domestic and foreign, as would any renewal of gasoline lines.

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The chart and table on market shares do not show the breakdown of sales of small domestic cars between subcompacts and compacts. This has been swinging widely. Domestic subcompacts accounted for 30 percent of the domestic small-car market in 1977, 35 percent in 1978, 50 percent in the first half of 1979, and then 45 percent in the three months ending in September. Of the total market, these translate to 9 percent, 11 percent, 18 percent, and 15 percent, respectively.

Outlook for automobile production

The automobile industry has announced production schedules for the fourth quarter of this year for plants in the U.S. at a seasonally adjusted annual rate of about 7-3/4 million units. The fourth-quarter rate may be pared if sales fall below expectation. Such production probably implies little increase in inventories of new domestic model cars by the end of the year from the 1.7 million units, seasonally adjusted, at the end of the third quarter. Such inventories would appear to be above desired levels, and some further inventory correction might develop early in 1980.

Aside from inventory correction, production in 1980 and 1981 will be closely related to the sales volume of domestic model cars. The average of the private forecasts noted above

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was for total unit sales of 9.6 million units in 1980 and 10.2 million in 1981. These are used as midpoints for the translation of sales to production, with allowance for a band of error on either side. The following assumes a 20 percent import share of the market, or midway between the share for the first nine months of this year and the average for the prior two years. (Details of the translation for the midpoint projection are shown in Table 3, attached).

Implication for production
of alternative sales assumptions

	Sales assumption	Sales		Production
		Total	Domestic	
1980	low	9.0	7.2	7.1
	medium	9.6	7.7	7.6
	high	10.2	8.2	8.1
1981	low	9.6	7.7	7.8
	medium	10.2	8.2	8.4
	high	10.8	8.6	8.9

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Ability of competitors to absorb Chrysler share of production

For 1980, the range of likely rates of production is well below the 9.2 million units produced by the industry in both 1977 and 1978. That rate did not appear to strain industry capacity, though seasonally adjusted annual rates of 9.5 million in the fourth quarter of 1978 and 9.6 million in the first quarter of this year appeared to do so.

In both 1977 and 1978, the industry excluding Chrysler produced about 8 million cars, and the capacity of these other producers has since been augmented by the addition of V.W. production facilities, which were in operation for only part of 1978, and by new GM facilities. This would imply that Chrysler competitors would have capacity to offset production losses stemming from possible closure of Chrysler facilities for any likely rate of total output in 1980--aside from possible difficulties posed by the composition of demand, as discussed below.

Somewhat more precision can be incorporated into such calculations by taking published figures on numbers of shifts and assembly line speeds for automobile plants and multiplying these by the number of workhours in a year. This provides a

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rough estimate of production capability without overtime. The results of such calculations are shown in Table 4, attached. All estimates are rough. The line speed figures on which they are based are subject to adjustment. (Calculations are based on the assumption of 240 working days of eight hours each. This allows for some downtime at Christmas and for model changeover. Because of slack demand, line speeds have been reduced in some cases since the dates of reports on which these calculations were based.) These are in the nature of estimates of minimum production capability, as rates of production can readily be increased by adding an extra hour on one side of each of the normal two shifts per plant and/or by adding Saturday overtime. The substantial unutilized capacity of American Motors facilities is not fully reflected in these figures.

Combining (1) a range of potential market shares by size classes, (2) the range of likely rates of overall production, (3) the movement of automobiles between Canada and the U.S. by size class, and (4) the calculations of production capability with allowance for overtime, it would appear that Chrysler's U.S. competitors should be able to meet total 1980 demands by themselves. Exceptions would arise if (1) the market share of subcompacts is high and total sales are toward the high range of estimates or (2) if the

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market share of mid-sized cars recovers toward 1978 levels in a total market with sales approaching the upper range of sales estimates.

For 1981, demands will be rising, but there would be some margin of time to increase production capability by increasing line speeds. In some limited cases, an additional shift might be added. Further, major model introductions are scheduled late in CY-1980. Ford plans to introduce its front-wheel drive subcompact model at the start of the 1981 model year, and G.M. also plans to introduce such a car during the 1981 model year. Thus, there will be opportunity to rationalize production. However, capacity constraints could still be a problem should Chrysler close and should demand remain strong for subcompacts or rebound for intermediates.

While capability would exist for domestic producers to meet Chrysler's share of demand under most circumstances, substantial resort to overtime might be required, depending on the size and composition of demand, and this could imply somewhat higher costs of production and ultimately higher prices than otherwise.

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Outlook for sales and production of trucks

A set of calculations similar to those made for autos can be made for trucks. Sales of trucks are forecast at 3.2 million units in 1980 by Townsend-Greenspan and 3.1 million by Data Resources. (Dates of forecasts are September 17 and October 24, respectively.) For 1981, Data Resources projected sales of 3.3 million units.

Schedules call for production of trucks in the fourth quarter of this year at a seasonally adjusted annual rate of about 2-1/2 million units. This would imply some probable further inventory correction during the quarter. However, inventories would still remain in the 900,000 range at the end of this year, or more than the industry normally carries, so that production in 1980 should be retarded by additional inventory correction.

The combination of moderate sales in the range of 3-1/4 million in 1980 and some inventory correction would imply production in the range of 2-3/4 million. Sales of 3.3 million in 1981, as in the Data Resources forecast, would translate into production of a little over 3 million units, after allowance for some slight inventory building and a net balance of imports exceeding exports.

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Ability of competitors to absorb Chrysler share of truck production

Chrysler has discontinued production of heavy trucks and is now a factor only in the lighter end of the market, which accounts for about 90 percent of total truck sales. Estimates of production capability without resorting to overtime can be made for light trucks as well as for automobiles. The results of such calculations are shown in Table 5. It is noted that capacity is scheduled to increase (beyond that which is shown) in the summer of 1980 when GM opens new facilities. It is also noted that rates of production during 1978 generally exceeded the figures shown in Table 5 by wide margins, as manufacturers made extensive use of overtime operations to satisfy demand.

Reconciliation can be made of projected rates of production with these estimates of capacity (after allowance for the 10 percent share of medium and heavy duty trucks in total production, also making allowance for the fact that the capacity figures encompass vans which do enter truck sales figures, and allowing for overtime). It would appear that for 1980 Chrysler's competitors would easily have capacity to absorb production losses resulting from a Chrysler shutdown. For 1981, unless sales of all trucks (including

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medium and heavy duty trucks) substantially exceed 3-1/2 million units, then Chrysler competitors could similarly absorb Chrysler's share of the market.

Availability of labor

Because of differences in location, Chrysler workers losing jobs in the event of a closedown would not necessarily be picked by other motor vehicle manufacturers as they stepped up operations to make up for Chrysler's share of production. However, these other manufacturers should not be constrained by availability of labor. The standard metropolitan statistical areas (SMSA's) in which motor vehicle assembly plants of Ford, American Motors, and G.M. are located contained a total of 1-1/2 million unemployed persons in June of this year and had an unemployment rate of 6.0 percent (not seasonally adjusted). On a nonseasonally adjusted basis, the unemployment rate nationally was 5.6 percent in June. For these areas, as well as nationwide, labor market conditions will probably be easing in the months ahead. Recent press reports place the number of G.M., Ford, and A.M.C. workers on layoff at 60,000, so that production, at least at some plants, could be stepped up without need for training new workers. That, of course, would not be the case at small car assembly plants, which, in many cases, are currently operating at high rates of utilization.

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IMPACTS OF A CHRYSLER SHUTDOWN ON AGGREGATE ECONOMIC ACTIVITY

The foregoing analysis would indicate that other domestic producers would be capable, at least through 1980, of increasing rates of output to offset most production losses associated with a shutdown of Chrysler activities. Lack of capacity to produce subcompact cars could be the notable exception. As the economy moves into 1981, motor vehicle sales and production should be improving gradually. With a lead time of one to two years, the industry, if starting to plan now, should be able during 1981 to rationalize and increase capacity to meet new market conditions. New assembly plants could not be constructed by that time. (Only one motor vehicle assembly plant is now under construction. It is scheduled to begin producing trucks during 1980.) However, there should be some leeway to augment capacity of existing plants. As noted, shifts can be added in some cases and line speeds can be increased. Restructuring of operations in late 1980 and in 1981 will be facilitated by the large number of new model introductions scheduled for that time. Given time for retooling and integration into new product lines, viable Chrysler facilities could be back into operation. Cost pressures could develop if extensive resort to overtime is required to meet demand.

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The major exception would be capacity to produce subcompact cars should demand remain strong. If this were to be the case, that share of the market would likely be lost to foreign competitors (and/or some share of export markets, particularly in Canada where no subcompacts are produced). A less likely alternative is that demand for intermediate-sized cars rebounds to a high level. In this case, since foreign producers are not generally in the intermediate market, sales would probably be shifted to large or compact models, with small loss to overall domestic production. Weakness in economic activity and/or uncertain availability of fuel would tend to spur the subcompact car share of the market but would have the opposite impact on the share for mid-sized cars. For that reason, relatively strong demands for both subcompacts and intermediates are unlikely to coincide.

Even if capacity were to be available, however, it is not certain that domestic producers would pick up all of Chrysler's share of the market. It is likely that some share of the small car market would be lost, as foreign producers are highly competitive in this sector of the market. In other segments of auto and truck markets, foreign products do not for the most part compete directly with Chrysler-built vehicles. Assuming that foreign producers would garner

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Chrysler's sales in the same proportion that they now take of all autos except subcompacts and do the same for Chrysler's share of the light end of the truck market (under 6,000 pounds gross vehicle weight), this would amount to about 50,000 vehicles excluding subcompacts.

Elements of a Chrysler shutdown

To provide a measure of the possible impact on the economy of a Chrysler shutdown, a scenario was constructed in which it is assumed that Chrysler Corporation ceases motor vehicle operations at the end of 1979. It is assumed that non-motor vehicle operations are spun off and that activity continues without interruption in those segments. While there are parts of the motor vehicle operations that might be viable and picked up by other producers, either foreign or domestic, it is assumed that in such event these facilities would be shutdown for up to two years for retooling and integration into the purchaser's line. As an example, a most likely candidate for such purchase would be the Belvidere, Illinois plant where Chrysler's subcompact models are produced. However, the fact that Chrysler projects losses on small car production could weigh against the likelihood that these car lines would continue to be produced without modification in the event of a takeover. Also weighing against uninterrupted

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operation of selected facilities is the fact that parts and materials for one Chrysler operation are often supplied by another Chrysler facility.

In this scenario, it is further assumed:

- There would be loss to foreign competitors of 200,000 units or about two-thirds of Chrysler's subcompact car production. This could be due to inability of other domestic producers to make up Chrysler's share of output, in which case such loss would be consistent with a market share for subcompacts in 1980 at about the 18 percent of the first six months of this year and also with a total auto market of about 10.2 million units. Alternatively, it could be consistent with a shift in preferences so that two-thirds of potential buyers of Chrysler subcompacts purchase foreign-built cars instead. (This would be somewhat higher than the 54 percent share of the subcompact market taken by imports in the first nine months of this year.)

- Foreign producers capture the remaining lost Chrysler output of automobiles in proportion to their market share for all cars excluding the subcompact category. Similarly,

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they pick up lost output of trucks in the under 6,000-pound category in proportion to market share. Combined, these would total about 50,000 cars and trucks.

- Chrysler's planned capital spending program of about $1 billion per year would be discontinued. Eventually other producers would be expected to raise capital outlays by roughly offsetting amounts, but there would be some hiatus before such spending plans could be formulated and implemented.

- There would be a virtually complete job loss by the corporate staff (except for some possessing skills currently in short supply), including those in product development, and by the sales staff. (Approximately 14,000 persons would be affected.)

- There would be at least temporary loss of output of purchased materials and services used in support of these staffs.

- There would be job loss of Chrysler workers engaged in motor vehicle operations and of workers in supplier companies. However, except for the share of the market lost at least temporarily to foreign producers, this job

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loss by Chrysler workers would be offset by increased employment by other domestic producers of motor vehicles and parts.

- Aggregate value added by motor vehicle dealers would be little affected, since the total volume of cars to be sold and serviced is assumed to be unchanged. Reduced operations or closure by Chrysler dealers would largely be offset by increased operations of other dealers. Economies of scale probably would lead to some overall reduction in dealer employment and in workers engaged in distribution of replacement parts.

- The possibility of a Chrysler liquidation has been sufficiently well publicized so that it may have been discounted by financial markets.

- Effects on household wealth have already largely taken place. The current market value of Chrysler preferred and common stock of about $600 million represents a small fraction of the $3.6 trillion of household financial assets. Responsibility for unfunded pension liabilities would fall to the Pension Benefit Guaranty Corporation. Ultimately employers would have to pay increased premiums to that corporation.

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- Chrysler creditors have long been aware of the possibility that the company might cease operations and have taken steps to minimize the impacts of such eventuality on operations and financial positions. However, some dislocations could result from delay or default on payments due creditors.

Translation to aggregate economic impacts

In deriving aggregate economic impacts, multipliers (used to derive secondary effects on economic activity) were applied to the following:

- The output loss caused by reduction of 200,000 of U.S. production of subcompact cars. (Output loss was calculated on 200,000 units times a selling price including options but excluding transportation of $5,500, less a dealer margin and less cost of imported materials which is reported by Chrysler at $800 per car.)

- Lost output associated with the capture by foreign producers of an additional 50,000 motor vehicles from Chrysler's current share of the market. (Unit value estimates were derived from figures supplied by the Department of Commerce.)

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- Lost Chrysler capital spending in the amounts indicated by the company proposal.

- The loss of estimated income of the corporate and marketing staffs, with offset for unemployment insurance benefits.

- The loss of the estimated value of purchased materials and services used in support of the corporate and sales staffs.

Except for any permanent loss of market share by domestic producers, effects would be expected to begin to phase out in 1981, or at latest at the end of that year. Specifically, introduction of new subcompact models would ease capacity constraints in that sector. Other producers begin to augment capital spending programs in 1981. Multipliers used were those derived by an interagency group and were based on properties of leading macroeconomic models.

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Calculated impacts on aggregate activity

On the basis of the foregoing assumptions, it is calculated that GNP might be reduced in nominal terms in 1980 by about $4 billion from what it might otherwise be and by about $6 billion in 1981. Such figures would represent about 0.15 percent of nominal GNP in 1980 and roughly 0.2 percent in 1981. Applying an "Okun's law" relationship to the equivalent effect on real GNP, unemployment would be raised by approximately 75,000 in 1980 and 100,000 in 1981. Aside from any permanent loss of market share to foreign producers, effects would be expected to fade out over time as market forces become governing. Impacts on aggregate activity of the dimensions cited here are too small to have much effect on inflation.

These effects can be translated to impacts on the Federal budget by applying marginal tax rates to the GNP change and by allowing for impacts of higher unemployment on outlays. The Federal deficit would be widened in CY-1980 by $1 billion, or slightly more, and in CY-1981 by roughly $1-3/4 billion. In each year about three-fourths of the impact would reflect reduced receipts from what otherwise would develop and the rest increased unemployment benefits and other transfer payments under a range of programs.

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These figures do not include liabilities of up to $1 billion over a thirty-year period that might accrue to the Pension Benefit Guaranty Corporation.

Alternative scenarios

Estimates of the impact on nominal GNP and other variables would be approximately three-fifths as large should domestic producers have sufficient capacity to satisfy demand for subcompact cars and if there were to be no shift in demand to motor vehicles of foreign origin, so that there was no loss of auto output to this country. This would provide a lower bound of estimated impacts on the economy of a Chrysler shutdown.

It is cautioned that any such estimates as to impacts on aggregate economic activity are imprecise at best, no matter what method of estimation is used. Whether fed through large econometric models or otherwise derived, such estimates depend on a number of assumptions that cannot be verified until after the fact. No attempt has been made here to assess the possible effects on such intangible factors as business or consumer confidence.

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Impacts on the balance of payments

The primary impact on the balance of payments under this scenario would consist of the assumed loss of output to foreign producers of the 200,000 subcompacts and 50,000 other motor vehicles. Value after deduction of dealer margin and $800 per unit for imported components on subcompacts is calculated at just over $1 billion.

Except for the possibility of reduced shipments of subcompacts to Canada (for which allowance is made in the 200,000 unit figure), there would appear to be little impact on the trade balance with Canada.

Trade balance with Canada
in motor vehicles and parts*

	Exports	Imports	Net
	(millions of dollars)		
	1978		
Industry	9,253.8	10,349.6	-1,095.8
Chrysler	1,423.4	1,426.0	-2.6
All other	7,830.4	8,923.6	-1,093.2
	1979 - 1st 6 months		
Industry	5,553.2	5,373.7	179.5
Chrysler	736.2	582.2	154.0
All other	4,817.0	4,791.5	25.5

* Excludes used cars.

Source: Industry data from Bureau of the Census, Department of Commerce. Chrysler data provided by Chrysler.

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Chrysler reported a roughly zero net trade balance with Canada in 1978, so that the industry total is little affected if Chrysler figures are subtracted. Figures for the first half of 1979 are thought to be atypical for both Chrysler and the industry, as demand for larger cars was sharply depressed in this country by gasoline lines while remaining little changed in Canada. Since Canadian production is weighted to larger model cars and vans, this caused a swing in the trade balance.

Some long-lived impacts on the U.S position in world motor vehicle markets could result from disappearance of Chrysler from markets. Quite probably, some dealers who formerly sold Chrysler products would make arrangements with foreign producers. This was the pattern in Great Britain when British Leyland and other manufacturers there scaled back the size of their operations. The major foreign producers selling motor vehicles in U.S. markets are now well entrenched and have extensive dealer arrangements, so that additional penetration from abroad would not be as substantial as occurred in Great Britain.

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It is noted that the relative position of the U.S. in world motor vehicle production declined very sharply during the 1950's and 1960's, then held relatively level during the 1970's. Chrysler in 1978 was sixth in the world among producers of motor vehicles, and its demise and resulting shifts in dealer arrangements in this country could contribute to renewed deterioration.

World production of motor vehicles

Year	Total	U.S.	U.S. & Canada	Europe	Asia	Other
			Thousands of units			
1978	42,307	12,899	14,706	16,222	9,368	2,011
1970	29,267	8,284	9,471	13,154	5,365	1,277
1960	16,488	7,905	8,303	6,824	811	550
1950	10,577	8,006	8,397	2,128	32	20
			Percent distribution			
1978	100.0	30.5	34.8	38.3	22.1	4.8
1970	100.0	28.3	32.4	44.9	18.3	4.4
1960	100.0	47.9	50.4	41.4	4.9	3.3
1950	100.0	75.7	79.4	20.1	0.3	0.2

Source: Motor Vehicle Manufacturers Association, Motor Vehicle Facts and Figures, 1979.

Ultimately, the share of U.S producers in domestic and world motor vehicle markets will largely be determined by relative costs and exchange rates. However, some countries tend to shelter and support domestic producers, so that market forces are not completely free to operate.

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REGIONAL IMPACTS

Chrysler's activities are heavily concentrated in the Detroit metropolitan area. For the 1978 model year, 46 percent of Chrysler's U.S. automobile assemblies were made in the Detroit area, compared with 11 percent for cars manufactured by all other producers. For calendar year 1978, 70 percent of Chrysler U.S. truck assemblies were in the Detroit area, versus 16 percent for all other producers.

Chrysler's suppliers are also concentrated in the Detroit area. Of total supplies purchased domestically in 1978, Chrysler reported that 41 percent ($3.3 billion) came from more than 6,000 firms located in Michigan. It is believed that these were largely concentrated in and around the Detroit area.

Employment

The attached Table 6 presents figures for Chrysler's U.S. employment in motor vehicle operations as of May 1979 by location. Table 7 presents similar employment figures as of September of this year. Neither table includes corporate staff (about 12,000 workers), those in sales, marketing, and service divisions (about 7,000 workers), or workers in activities not related to motor vehicles.

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Nearly 52,000 workers in motor vehicle operation were employed in the Detroit standard metropolitan statistical area (SMSA) in May. (Inclusion of the corporate and sales staffs would have raised that figure well above 65,000.) This represented 2-1/2 percent of the total labor force in the SMSA (about 3-1/4 percent including corporate staff). By September, Chrysler motor vehicle employment in the Detroit SMSA had declined by about 10,000 to 42,000. Figures on the labor force for September are not available, but the decline in employment of 10,000 workers between May and September was equivalent to 0.5 percent of the labor force measured as of May.

For each Chrysler automobile worker laid off in the Detroit area because of a shutdown, about one job would probably be lost at area firms supplying Chrysler. Thus, it is likely that the direct job loss in the greater Detroit area in event of a Chrysler shutdown would be well in excess of 80,000, measured from September levels of employment (100,000 measured from the higher levels of last May). The Detroit area unemployment rate would be directly raised by 4 percentage points (5 percentage points if May is used as the base), and secondary effects would raise this percentage still higher. Rule of thumb regional multipliers range to the order of 2--i.e., for each job lost directly there would

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be loss of one additional job through indirect effects. Some of this could be mitigated if Chrysler workers find jobs in plants of other motor vehicle manufacturers in the Detroit area. While other producers have been shifting operations away from the Detroit area, they still have substantial operations there. Of motor vehicles produced in the Detroit area in 1978, Chrysler accounted for about two-fifths.

The latest available figure for the unemployment rate in the Detroit SMSA was 7.8 percent for the month of August. In May, the rate had been 7.0 percent. (Area unemployment rate figures are not calculated on a seasonally adjusted basis.) National figures for those months were 5.2 percent in May and 5.9 percent in August (both nonseasonally adjusted).

Chrysler workers represent a significant portion of the workforce in several other areas. Among these, plants in Kokomo, Indiana, and Belvidere, Illinois (Rockford SMSA), along with plants in Ann Arbor, Michigan, Syracuse, New York, and at least some facilities in St. Louis, Missouri, are thought to be likely candidates for purchase by other firms. For these plants, disruptions would probably be two years at most. Generally, plants in the Detroit area are aged, some dating back to before World War I, and would not be attractive to a potential buyer.

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Longer-range regional considerations

Some jobs in the Detroit area will be lost even if Chrysler continues operations. The Hamtramck plant, which accounted for 26 percent of Chrysler's 1978 model-year U.S. automobile assemblies, is to operate at only one shift during the 1980 model year and to close at the end of that year. Some workers involved will be shifted to other plants. Another plant in the Detroit area is slated for closure, and a facility in Lansing, Michigan (well outside the Detroit area) has recently been closed. Aside from these, however, Chrysler reports no further closings are currently anticipated. Chrysler plans for assembly are as follows:

Auto assembly plants

Michigan:

Hamtramck	- To be closed at end of 1980 model year.
Lynch Road	- Continued production of larger model cars. Eventually to produce planned X-body cars.
Jefferson	- Currently producing light trucks and vans. Scheduled to shift to production of planned K-body compact in 1981 model year.

Missouri:

St. Louis	- Continued production of larger model cars. Eventually produce planned X-body cars.

Delaware:

Newark	- Currently producing compact cars. To produce planned K-body cars in 1981 model year.

Illinois:

Belvidere	- Continued production of subcompacts.

Canada:

Windsor, Ontario	- Continued production of larger model cars. Eventually produce planned X-body cars.

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Truck assembly plants

Michigan:
Warren - Continued production of light trucks.

Missouri:
Fenton - Continued production of light trucks.

Canada:
Pillette - Continued production of light trucks.

Note: X-body cars are to replace intermediate and full-size models in 1984 and 1985 model years.

Table 8, attached, presents figures on Chrysler's planned rates of production for these various assembly plants and compares these plans with production in 1977 and 1978. The planned rates of output are consistent with overall rates of production in Chrysler's guarantee request of October 17 which envisaged a recovery of market share as well as improved overall demand for motor vehicles.

It should be noted that closedown of major facilities need not relegate an area to permanently depressed status. While some industries are in decline or phasing out of an area, others are generally growing. That has been the experience of the Detroit area where jobs in manufacturing declined by 4.9 percent between 1973 and 1978, while jobs in nonmanufacturing industries grew by 10.3 percent.

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The experience of the Seattle-Everett metropolitan area provides one example of a major metropolitan area that suffered severe job loss. Between 1968 and 1971, employment in the aircraft and parts industry fell by more than 60,000, representing 10 percent of all employment in the area. It took a number of years to overcome this job loss, but by last year, the unemployment rate for the area was less than the national average, though employment in aircraft and parts in the area was still well below its previous peak level.

Employment and unemployment in the Seattle-Everett SMSA

	Total	Aircraft & parts	Other manufacturing	Unemployment rate
	(thousands)			(percent)
1968	633	104	68	2.9
1969	636	91	72	4.0
1970	569	61	67	9.7
1971	523	40	64	12.4
1972	545	41	67	10.9
1973	582	50	71	7.6
1975	612	50	74	9.1
1976	636	45	75	9.1
1977	655	45	81	8.3
1978	723	59	88	5.3

Note: There is a slight break in data between 1969 and 1970.

Source: Data provided by Bureau of Labor Statistics, Department of Labor.

Experience of the Seattle-Everett area does not necessarily provide a good analogy with potential problems facing the Detroit area. The workforce in the aircraft industry would tend to be more highly skilled than in the motor vehicle industry, and these skills might be more transferable and the workforce more mobile.

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COMPETITIVE STRUCTURE OF MOTOR VEHICLE MARKETS

The Chrysler Corporation is the third largest of five U.S. producers of automobiles (six if tiny Checker Motors is included). Unit sales are less than one-half those of Ford and roughly one-fifth of G.M.'s. In addition, there are over fifteen foreign companies producing cars for sale in the U.S., and these also compete with Chrysler. The truck market consists of nine major domestic producers and eight foreign manufacturers currently active in the U.S. market.

Markets for automobiles

Table 9, attached, shows Chrysler's position in the automobile market for the first nine months of 1979 and for the full calendar year 1978. Chrysler's share of the total automobile market of 10.1 percent in 1978 and 9.3 percent so far this year compares with 11.7 percent and 10.9 percent in 1976 and 1977, respectively. (As a caution, classification of imported models by size class was arbitrary to some degree. Because of limited sales data, classification by manufacturer rather than model was required in some instances. Sales of Chrysler and other captive imports are included in the "import" column. Figures differ from those cited in the earlier section on the outlook for the composition of sales in which imports were treated as a completely separate market category.)

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As can be seen in the column showing the size category as a percent of total sales (second from right hand column of the table), the subcompact market (including imports) has expanded dramatically from 25.9 percent in 1978 to dominate with 36.0 percent of total car sales this year. Chrysler's Omni and Horizon models were able to hold 7.1 percent of this growing market and might have even been able to gain market share had it had not been for inability to obtain additional engines which are purchased from foreign suppliers. This expanding market is also the one with the greatest number of competitive manufacturers. Testimony before the Senate Banking Committee hearings on the Chrysler proposal indicates that some foreign producers have a substantial cost advantage at current exchange rates over U.S. producers of subcompact cars, including Chrysler.

Among other markets, Chrysler had a 15.3 percent share of compact car sales in 1978, declining to 14.5 percent in 1979. G.M. introduced a new line of models in this market category in the spring of this year, placing other producers under substantial competitive pressure.

Chrysler was the largest seller in the market for vans. This is a relatively small market and there is little differentiation from light trucks. Industry figures will be restructured in the future to include vans with trucks.

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Chrysler's share of the market for intermediate sized cars was 14.6 percent in 1978, dropping to 10.3 percent so far this year. There are currently three producers in this market.

In the market for full-sized cars where Chrysler introduced restyled models last year, Chrysler gained an increased share to 7.5 percent during the first nine months of this year. Chrysler is not now a factor in the market for luxury cars, though its October 17 proposal indicated that it has plans to become one again in the future.

Shifts in the pattern of sales this year from last provide an indication of how changing economic conditions impact on Chrysler's share of the market. The following tabulation presents the change in unit car sales so far this year from a year earlier for Chrysler and the industry.

Change in unit car sales in the first nine months of 1979 from same period of 1978 (thousands of units)

	Total domestics		Chrysler	
	Number	Percent	Number	Percent
Subcompact	505.5	57.9	54.5	34.6
Compact	-247.3	-14.3	-46.8	-16.5
Van	-28.8	-24.5	-15.5	-31.9
Intermediate	-491.8	-21.4	-153.6	-45.2
Full	-242.6	-15.3	44.6	79.9
Luxury	-63.2	-15.2	--	--
Total	-568.2	-8.1	-116.9	-13.2

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Markets for trucks

Figures on shares of the truck market are shown in Table 10. Chrysler's share of the total market was 11.8 percent in 1978, falling to 8.4 percent in the first eight months of this year in a market that was generally weakening.

Sales of light weight models make up close to 90 percent of overall truck sales. Trucks in this cateogry may be used for personal as well as business purposes, and sales this year have been more sensitive to the gasoline situation than have sales of larger trucks. Most of Chrysler's products in the light-truck market are at the heavier end (6,001 to 14,000 lbs.) of the light truck range--the grouping most vulnerable to shortages of fuels. The tabulation below presents figures on changes in unit sales this year from a year earlier.

Change in unit truck sales in the first eight months of 1979 from same period of 1978

	Total domestics		Chrysler	
	Number	Percent	Number	Percent
Light total	-513.9	-21.7	-133.6	-39.6
0 to 6,000	-92.4	-11.2	-0.5	-0.9
6,001 to 14,000	-421.5	-27.3	-133.1	-47.2
Medium	-1.2	-1.1	-0.6	-19.3
Heavy	21.6	15.8	--	--
Total	-493.4	-18.8	-134.2	-39.4

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Overall market position

For both cars and trucks, the competitive position for Chrysler over the near term will depend heavily on economic conditions and availability of gasoline. Chrysler was generally most strongly positioned toward the larger end of both the auto and truck markets which suffered the most from short supplies of fuel. The exception was the subcompact market, where Chrysler had popular entries but where its production capability was limited.

Overall, disappearance of Chrysler as a competitive force would not radically alter the pattern of substantial competition in the market for subcompacts. A number of new entries are planned for this market, including front-wheel-drive "world" cars by Ford and G.M. in the 1981 model year.

In the market for compacts, Chrysler plans to introduce its K-body front-wheel-drive car at the start of the 1981 model year. This will compete with G.M. entries, which have taken a dominant position in this market since introduction of its front-wheel-drive X-cars in April of this year.

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G.M. has a dominant position in markets for larger model cars, and that position would be somewhat enhanced by disappearance of a competitor. Similar considerations apply to G.M.'s and Ford's positions in the market for light trucks. Chrysler plans to have completely revamped and downsized models in the larger car categories in the 1984 and 1985 model years.

Acquisition of Chrysler facilities

As has been noted previously, in the event of a Chrysler shutdown some of its facilities would be purchased by other firms, either foreign or domestic. This would have serious anticompetitive effects only in the event that acquisition were to be by a firm which is currently a major domestic producer.

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Table 1

Production, Employment, and Corporate Profits
in the U.S. Motor Vehicle Industry

	Total US Real GNP % Change	Production				Motor Vehicles & Equipment		
		Industry		Chrysler		Employment		Profits*
		Number (000)	% Ch.	Number (000)	% Ch.	Number (000)	% Ch.	($ Billions)
1954	-1.3	6,533	-11	818	-39	765.7	-17	2.1
1955	6.7	9,188	41	1,458	78	891.2	16	4.1
1956	2.1	6,906	-25	961	-34	792.5	-11	2.2
1957	1.8	7,207	4	1,299	35	769.3	-3	2.6
1958	-0.2	5,115	-29	640	-51	606.5	-21	0.9
1959	6.0	6,734	32	810	27	692.3	14	2.9
1960	2.3	7,894	17	1,089	34	724.1	5	3.0
1961	2.5	6,644	-16	714	-34	632.3	-13	2.5
1962	5.8	8,189	23	813	14	691.7	9	4.0
1963	4.0	9,100	11	1,159	43	741.3	7	4.9
1964	5.3	9,300	2	1,378	19	752.9	2	4.7
1965	5.9	11,114	20	1,611	17	842.7	12	6.1
1966	5.9	10,363	-7	1,599	-1	861.6	2	5.1
1967	2.7	8,992	-13	1,506	-6	815.8	-5	3.9
1968	4.4	10,794	20	1,760	17	873.7	7	5.5
1969	2.6	10,183	-6	1,557	-12	911.4	4	4.8
1970	-0.3	8,263	-19	1,452	-7	799.0	-12	1.4
1971	3.0	10,649	29	1,518	5	848.5	6	4.9
1972	5.7	11,297	6	1,692	11	874.8	3	5.9
1973	5.5	12,663	12	1,934	14	976.5	12	5.8
1974	-1.4	9,984	-21	1,539	-20	907.7	-7	0.2
1975	-1.3	8,966	-10	1,223	-21	792.4	-13	1.7
1976	5.9	11,485	28	1,775	45	881.0	11	7.4
1977	5.3	12,699	11	1,710	-4	942.0	7	9.1
1978	4.4	12,896	2	1,615	-6	997.2	6	8.9

* Corporate profits with inventory valuation adjustment.

Sources:
Production: Ward's Automotive Yearbooks. Figures are combined totals of autos and trucks.
Employment: Bureau of Labor Statistics, Department of Labor.
Profits and real GNP: Bureau of Economic Analysis, Department of Commerce.

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Table 2

Trends in Sales and Market Shares by Size Classes

	Sales				Market Shares			
	Domestic			Import	Domestic			Import
	Small	Mid*	Full		Small	Mid*	Full	
	(----thousands of units-----)				(----------percent--------)			
1968	1,500	2,451	4,661	1,030	15.6	25.4	48.3	10.7
1969	1,645	2,165	4,624	1,117	17.2	22.7	48.4	11.7
1970	1,896	1,862	3,360	1,283	22.6	22.2	40.0	15.3
1971	2,411	2,027	4,218	1,566	23.6	19.8	41.3	15.3
1972	2,636	2,390	4,343	1,621	24.0	21.7	39.5	14.7
1973	3,126	2,575	3,972	1,762	27.3	22.5	34.7	15.4
1974	2,887	2,174	2,382	1,412	32.6	24.6	26.9	15.9
1975	3,026	2,038	1,994	1,587	35.0	23.6	23.1	18.4
1976	3,365	2,716	2,532	1,498	33.3	26.9	25.0	14.8
1977	3,222	3,096	2,793	2,075	28.8	27.7	25.0	18.5
1978	3,476	3,162	2,674	2,000	30.7	28.0	23.6	17.7
1979-9 mos.	2,898	1,910	1,638	1,814	35.1	23.1	19.8	22.0

* Includes vans.

Source: Data provided by Bureau of Economic Analysis, Department of Commerce. Size classification may not match that used by the industry.

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Table 3

Reconciliation of Sales and Production Forecasts
(millions of units)

	Sales				Exports less imports from Canada	Inventories		Production
	Total	Import		Domestic		End of period	Change	
		Number	Share					
1976	10.1	1.5	14.8	8.6	-0.1	1.5	0.0	8.5
1977	11.2	2.1	18.6	9.1	-0.1	1.8	0.3	9.2
1978	11.3	2.0	17.7	9.3	0.0	1.7	0.0	9.2
1979 est.	10.6	2.2	21.1	8.4	0.1	1.7	0.0	8.5
1980 est.	9.6	1.9	20.0	7.7	0.1	1.5	-0.2	7.6
1981 est.	10.2	2.0	20.0	8.2	0.1	1.6	0.1	8.4

Note: Detail may not add to total because of rounding.

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Table 4

Estimated Auto Production Capability Without Overtime
(thousands of units)

	Subcompact	Compact	Intermediate	Full & Luxury	Total
			United States		
GM	748	1,477*	1,432	1,888	5,545
Ford	541	415	641	756	2,353
Chrysler	269	346	202	192	1,008
AM	n.a.	129**	--	--	129
VW	216	--	--	--	216
Total	1,774	2,367	2,275	2,836	9,252
			Canada		
GM	--	--	272	211	483
Ford	--	223	--	119	342
Chrysler	--	--	211	--	211
Total	--	223	483	330	1,036
			U.S. and Canada		
GM	748	1,477	1,704	2,099	6,028
Ford	541	638	641	875	2,695
Chrysler	269	346	413	192	1,220
AM	n.a.	129	--	--	129
VW	216	--	--	--	216
Total	1,774	2,590	2,758	3,166	10,288

* Includes second shift to be added at Oklahoma City plant in November 1979.
** Includes some subcompacts.

Source of data: Ward's Automotive Yearbook, 1979 and Ward's Automotive Reports

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Table 5

Estimated Light Truck Production Capability Without Overtime*
(thousands of units)

	United States
GM	1,233
Ford	958
Chrysler	536
AM	185
International Harvester	48
Total	2,960

	Canada
GM	173
Ford	196
Chrysler	84
AM	54
Total	507

	U.S. and Canada
GM	1,406
Ford	1,154
Chrysler	620
AM	239
International Harvester	48
Total	3,467

* Includes a limited number of medium trucks.

Source of data: Ward's Automotive Yearbook, 1979 and Ward's Automotive Reports.

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Table 6

Chrysler Employment in Motor Vehicle Operations
May 1979

State	Metropolitan area or county	Chrysler employment	Establishment employment: All industries	Establishment employment: Manufacturing	Labor force	Unemployment rate	Chrysler as a percent of labor force
			(thousands)			(percent)	
Michigan	Ann Arbor	1,276	139.7	47.0	142.5	5.4	0.9
	Detroit	51,676	1,823.6	606.2	2,061.5	7.0	2.5
	Lansing	652	199.4	47.3	237.4	5.8	0.3
Indiana	Indianapolis	4,042	520.7	132.4	590.2	4.2	0.7
	Kokomo (Howard County)	6,764	n.a.	n.a.	45.1	12.1	15.0
	Michigan City (La Porte County)	295	n.a.	n.a.	50.8	5.2	0.6
	New Castle (Henry County)	2,607	n.a.	n.a.	24.7	6.4	10.6
Ohio	Dayton	1,926	366.6	109.9	386.9	5.7	0.5
	Fostoria*	652	n.a.	n.a.	107.6	4.1	0.6
	Sandusky (Erie County)	344	n.a.	n.a.	39.7	4.7	0.9
	Toledo	2,389	312.6	91.5	367.4	5.8	0.7
	Akron	3,748	273.0	84.8	299.9	5.4	1.2
	Lima	347	n.a.	n.a.	102.0	5.4	0.3
Missouri	St. Louis	8,900	985.8	254.6	1,091.7	4.2	0.8
Illinois	Rockford	5,076	122.7	57.0	133.3	4.1	3.8
Delaware	Wilmington	4,477	219.4	63.7	238.7	6.3	1.9
New York	Syracuse	3,679	259.2	60.4	299.2	4.6	1.2
Alabama	Huntsville	1,741	120.4	36.0	136.7	6.3	1.3

* Falls in Seneca, Hancock, and Wood Counties.

SOURCE: Chrysler employment figures from Department of Transportation. 11/7/79
Other data from Bureau of Labor Statistics.

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Table 7

Chrysler Employment in Motor Vehicle Operations
September 1979

State	Metropolitan area or county	Chrysler employment	Change from May	Chrysler employment as percent of May labor force
Michigan	Ann Arbor	1,158	-118	0.8
	Detroit	41,909	-9,767	2.0
	Lansing	13	-639	0.0
Indiana	Indianapolis	2,930	-1,112	0.5
	Kokomo (Howard County)	5,055	-1,709	11.2
	Michigan City (La Porte County)	293	-2	0.6
	New Castle (Henry County)	2,167	-440	8.8
Ohio	Dayton	1,491	-435	0.4
	Fostoria*	505	-147	0.5
	Sandusky (Erie County)	232	-112	0.6
	Toledo	1,870	-519	0.5
	Akron	3,532	-216	1.2
	Lima	320	-27	0.3
Missouri	St. Louis	7,313	-1,587	0.7
Illinois	Rockford	5,104	28	3.8
Delaware	Wilmington	4,646	169	1.9
New York	Syracuse	3,438	-241	1.1
Alabama	Huntsville	1,691	-50	1.2

* Falls in Seneca, Hancock, and Wood Counties.

SOURCE: Chrysler Corporation

11/7/79

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Table 8

Planned Chrysler Assembly Operations, by Location

	1977	1978	1981	1982	1983	1984	1985
	(thousands of units)						
Automobiles							
Michigan - Hamtramck 1/	380	292	--	--	--	--	--
Michigan - Lynch Road	209	142	137	201	251	249	253
Michigan - Jefferson 2/	96	84	180	260	282	293	300
Missouri - St. Louis	269	236	196	168	129	207	238
Delaware - Newark	226	189	180	259	283	293	300
Illinois - Belvidere	173	188	277	302	279	268	264
Canada - Windsor	220 3/	179 3/	200	226	232	231	248
Trucks							
Michigan - Warren	(328 3/	310 3/)	172	176	275	301	337
Michigan - Sherwood	(	)	16	20	21	22	23
Missouri - Fenton	124 3/	124 3/	119	142	148	146	135
Canada - Pillette	107 3/	76 3/	82	91	98	97	90

1/ Scheduled for one-shift operations in model-year 1980 and closure thereafter.
2/ Producing trucks during model years 1979-80 at rate estimated at 90,000 per year.
3/ Calendar year figure.

Source: Back data from Ward's Automotive Yearbooks.
Projected output provided by Chrysler.

11/7/79

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Table 9

Shares of Automobile Market by Size Category
(in percent)

	Chrysler	GM	Ford	AMC	VW	Domestic	Import	Total	Size as % of market	No. of manufacturers
					CY-1979 - Cumulative through September					
Subcompact	7.1	17.1	16.8	1.3	4.0	46.3	53.7	100	36.0	15
Compact	14.5	41.9	30.0	4.5	--	90.9	9.1	100	19.7	9
Van	32.5	24.1	30.5	--	--	87.1	12.9	100	1.2	4
Intermediate	10.3	74.3	15.3	--	--	100.0	--	100	21.8	3
Full-size	7.5	72.2	20.3	--	--	100.0	--	100	16.2	3
Luxury	--	62.7	23.0	--	--	85.7	14.3	100	5.0	7
Total	9.3	45.8	20.1	1.4	1.4	78.0	22.0	100	100.0	21
					CY-1978					
Subcompact	7.1	18.3	14.2	0.8	0.8	41.2	58.8	100	25.9	15
Compact	15.3	37.3	34.3	5.7	--	92.6	7.4	100	21.2	9
Van	34.0	25.5	26.9	--	--	86.4	13.6	100	1.5	4
Intermediate	14.6	63.9	21.2	0.3	--	100.0	--	100	26.6	4
Full-size	3.5	74.6	22.0	--	--	100.0	--	100	18.9	3
Luxury	--	59.7	28.6	--	--	88.3	11.7	100	5 8	7
Total	10.1	47.6	22.8	1.5	0.2	82.3	17.7	100	100.0	21

Source: Sales data from Ward's Automotive Reports and Yearbooks. Size classification by Ward's for domestic cars and by Consumer Reports where available for import models.

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Table 10

Shares of Truck Market by Size Category
(in percent)

Weight Category (lbs)	Chrysler	GM	Ford	AMC Jeep	International	Other	Total domestic	Import	Total	Size as % of market	No. of manufacturers**
CY-1979 - Cumulative through August											
Light-total	9.3	39.9	30.8	4.3	0.7	*	85.0	15.0	100	88.9	10
0 to 6,000	5.1	45.1	14.3	4.7	--	--	69.2	30.8	100	43.2	9
6,001 to 14,000	13.3	34.9	46.5	3.9	1.4	*	100.0	--	100	45.7	5
Medium 14,001 to 26,000	2.4	44.1	35.8	--	17.8	*	100.0	--	100	4.5	5
Heavy 26,001 +	--	13.1	17.4	--	31.8	36.3	98.6	1.4	100	6.5	9
Total	8.4	38.3	30.2	3.8	3.5	2.4	86.6	13.4	100	100.0	17
CY-1978											
Light-total	12.8	41.0	32.0	4.3	1.0	*	91.1	8.9	100	91.0	10
0 to 6,000	5.1	54.2	13.7	5.2	--	--	78.2	21.8	100	37.2	9
6,001 to 14,000	18.2	31.9	44.6	3.7	1.6	*	100.0	--	100	53.9	5
Medium 14,001 to 26,000	3.6	40.5	36.0	--	19.9	*	100.0	--	100	4.0	5
Heavy 26,001 +	--	12.5	19.5	--	26.3	40.6	98.9	1.1	100	5.0	9
Total	11.8	39.5	31.5	3.9	3.0	2.0	91.8	8.2	100	100.0	17

* Less than 0.1 percent
** Represents major manufacturers. Truck sales statistics do not cover the entire industry.
Note: Mercedes-Benz sells both heavy and medium weight trucks. Since the breakdown is unknown, all Mercedes-Benz sales are listed here under heavy trucks.

Source: Sales data are from the Motor Vehicle Manufacturers Association of the U.S., Inc., and Ward's Automotive Reports and 1979 Yearbook

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APPENDIX 2

HISTORICAL PATTERNS FOR CHRYSLER AND INDUSTRY

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Chrysler Corporation
- Consolidated Sales and Earnings, 1945-78 1
- Percent of Retail Sales Attained, 1976-79 2

Highlights of Chrysler's Performance vs.:
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- Operating profit, interest & net income 14

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Office of the Assistant Secretary for
Domestic Finance

Corporate Finance and Special Projects

November 6, 1979

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Chrysler Corporation Consolidated
($ in thousands)

Year	Unit Sales	Net Sales	Net Earnings (Loss)
1945	93,517	$ 994,546	$ 37,465
6	677,379	870,000	26,889
7	944,379	1,362,627	67,181
8	1,003,564	1,567,933	89,187
9	1,267,470	2,084,603	132,170
1950	1,313,239	2,190,693	127,877
1	1,395,833	2,546,679	71,973
2	1,114,228	2,600,959	78,697
3	1,344,583	3,347,864	74,789
4	883,769	2,071,598	18,517
1955	1,579,215	3,466,222	100,063
6	1,077,877	2,676,334	19,953
7	1,381,951	3,564,983	125,090
8	704,099	2,165,382	(29,663)
9	917,364	2,642,980	(1,990)
1960	1,183,311	3,007,049	35,142
1	802,003	2,127,292	8,983
2	892,299	2,377,593	65,813
3	1,518,586	3,505,275	163,370
4	1,807,258	4,287,348	215,372
1965	2,076,523	5,299,935	239,543
6	2,133,816	5,582,545	194,065
7	2,245,583	6,135,817	203,189
8	2,610,016	7,353,572	302,946
9	2,431,551	6,942,128	98,971
1970	2,434,398	6,887,356	(7,603)
1	2,662,517	7,892,682	83,660
2	3,028,212	9,640,777	220,455
3	3,402,413	11,667,404	255,445
4	2,762,842	10,859,956	(52,094)
1975	2,475,597	11,598,405	(259,535)
6	3,130,307	15,537,788	422,631
7	2,328,302	13,058,559	163,162
8	2,211,535	13,618,324	(204,635)

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PERCENT OF U.S. RETAIL SALES ATTAINED

DOMESTIC AND IMPORTED PASSENGER CARS

Year	Period	CHRYSLER		FORD		GENERAL MOTORS		AMERICAN MOTORS		IMPORTS	
		Period	Year to Date	Period	Year to Date	Period	Year to Date	Period	Year to Date	Period	Year to Date
1976 -	1st Quarter	14.3	14.3	22.7	22.7	46.9	46.9	2.9	2.9	13.2	13.2
	2nd Quarter	14.3	14.3	22.7	22.7	47.7	47.4	2.4	2.6	12.9	13.0
	3rd Quarter	13.5	14.1	22.9	22.8	45.2	46.6	2.0	2.4	16.4	14.1
	4th Quarter	12.5	13.7	21.1	22.3	50.2	47.5	2.5	2.5	13.7	14.0
1977 -	1st Quarter	12.6	12.6	23.2	23.2	46.2	46.2	1.8	1.8	16.2	16.2
	2nd Quarter	12.3	12.4	22.0	22.5	45.9	46.0	1.7	1.8	18.1	17.3
	3rd Quarter	12.2	12.3	21.8	22.3	44.7	45.6	1.5	1.7	19.8	18.1
	4th Quarter	10.9	12.0	24.6	22.8	47.5	46.1	1.6	1.7	15.4	17.4
1978 -	1st Quarter	11.3	11.3	23.9	23.9	45.1	45.1	1.5	1.5	18.2	18.2
	2nd Quarter	11.7	11.5	23.5	23.7	47.1	46.3	1.7	1.6	16.0	16.9
	3rd Quarter	10.6	11.2	21.3	22.9	47.6	46.7	1.5	1.6	19.0	17.6
	4th Quarter	10.6	11.1	22.6	22.9	50.7	47.6	1.2	1.5	14.9	16.9
1979 -	1st Quarter	10.9	10.9	21.8	21.8	45.8	45.8	1.0	1.0	20.5	20.5
	2nd Quarter	10.5	10.7	19.6	20.6	45.4	45.6	1.5	1.3	23.0	21.8
	3rd Quarter	10.6	10.6	18.9	20.1	46.2	45.8	1.5	1.4	22.8	22.1

Source: Chrysler Corporation

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HIGHLIGHTS OF CHRYSLER'S PERFORMANCE VS. INDUSTRY COMPARATIVE ANALYSIS

SALES

- CHRYSLER'S PATTERN IS CLOSE TO THE AVERAGE THROUGH 1977
- DOWNTURN IN 1978

COGS

- CHRYSLER'S COGS % IS TYPICALLY 7% HIGHER THAN OTHER INDUSTRY PARTICIPANTS
- TREND IN 1979 (1st SIX MONTHS) SHOWS FURTHER EROSION TO 97.4%
- A SUBSTANTIAL LEVEL OF SALES GROWTH HAS BEEN NECESSARY TO FAVORABLY AFFECT THE GROSS MARGIN PERCENTAGE

DEPRECIATION

- CHRYSLER'S DEPRECIATION AS A % OF SALES IS ONE-HALF FORD OR GM VALUES (LOW CAPITAL INVESTMENT IN RECENT YEARS)

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S.G.&A.

- CHRYSLER'S PATTERN IS COMPARABLE TO THE LEVELS (AS A PERCENT OF SALES) OF GM AND FORD

OPERATING PROFIT

- GM PERFORMANCE IS TOP OF COMPETITORS
- FORD IS A CLEAR SECOND
- GROSS MARGIN PROBLEMS HAVE "TRICKLED" DOWN TO THE OPERATING PROFIT LEVEL AT BOTH CHRYSLER AND AMC

CAPITALIZATION

- CHRYSLER'S DEBT/EQUITY RATIO PATTERN SHOWS A HIGHER LEVEL THAN THE INDUSTRY NORM
- AMC'S LEVEL IS CURRENTLY INFLATED DUE TO AGGRESSIVE CAPITAL EXPENDITURES DURING 1973 TO 1976

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INVENTORY TURNOVER

- CHRYSLER HAS HISTORICALLY OPERATED AT A LOWER LEVEL THAN THE INDUSTRY
- "SALES BANK" INVENTORY/PRODUCTION
- NEW PRODUCT LAUNCHING PROBLEMS

ASSET TURNOVER

- LITTLE VARIATION FROM PARTICIPANT TO PARTICIPANT EXCEPT AMC
- AMC TYPICALLY 20% HIGHER THAN INDUSTRY

CAPITAL EXPENDITURES

- CHRYSLER'S RATIOS ARE COMPARABLE TO THE INDUSTRY
- CAPITAL EXPENDITURES PER SALES
- CAPITAL EXPENDITURES PER NET PROPERTIES, PLANT, AND EQUIPMENT

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COMPARISON OF CHRYSLER'S EXPENSE STRUCTURE WITH THAT OF INDUSTRY AND KEY COMPETITORS
•AVERAGE OF 1974-78 RATIOS

	CHRYSLER	AGG*	VLO5 **	GM	FORD	AMC
NET SALES	100.0	100.0	100.0	100.0	100.0	100.0
LESS: COST OF GOODS SOLD	93.8	86.8	87.5	85.0	89.3	90.0
GROSS PROFIT	6.2	13.2	12.5	15.0	10.7	10.0
LESS: DEPRECIATION	1.1	2.0	1.9	2.1	1.9	.9
SELLING, GEN & ADMIN.	4.0	3.9	4.2	3.7	3.8	9.0
OPERATING PROFIT	1.1	7.3	6.5	9.2	5.0	.1
ADD: OTHER NET INCOME	.1	1.1	1.0	1.0	1.1	.8
LESS: INTEREST	1.0	.7	.8	.6	.7	.7
PRETAX INCOME	0	7.7	6.7	9.6	5.4	.2
LESS: INCOME TAX/EXTRAORDINARY	.1	3.5	3.1	4.5	2.2	.2
NET INCOME	(.1)	4.2	3.6	5.1	3.2	0

* Average of GM, Ford, and AMC
** Value Line " Industry Average"

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COST OF GOODS SOLD

- GRAPH SHOWS CHRYSLER'S HISTORY (1969-1978) IN COMPARISON WITH KEY COMPETITORS.
- CHRYSLER'S COST OF GOODS SOLD AS % OF NET SALES:
  - GENERALLY EXCEEDS THAT OF KEY COMPETITORS; BY 1978, IT WAS MORE THAN 7% HIGHER THAN ANYONE ELSE.
  - SHOWS AN INCREASING TREND, WHICH APPARENTLY CONTINUED IN FIRST SIX MONTHS OF 1979.
  - HAS REACHED 97.4% OF SALES IN THE FIRST SIX MONTHS OF 1979

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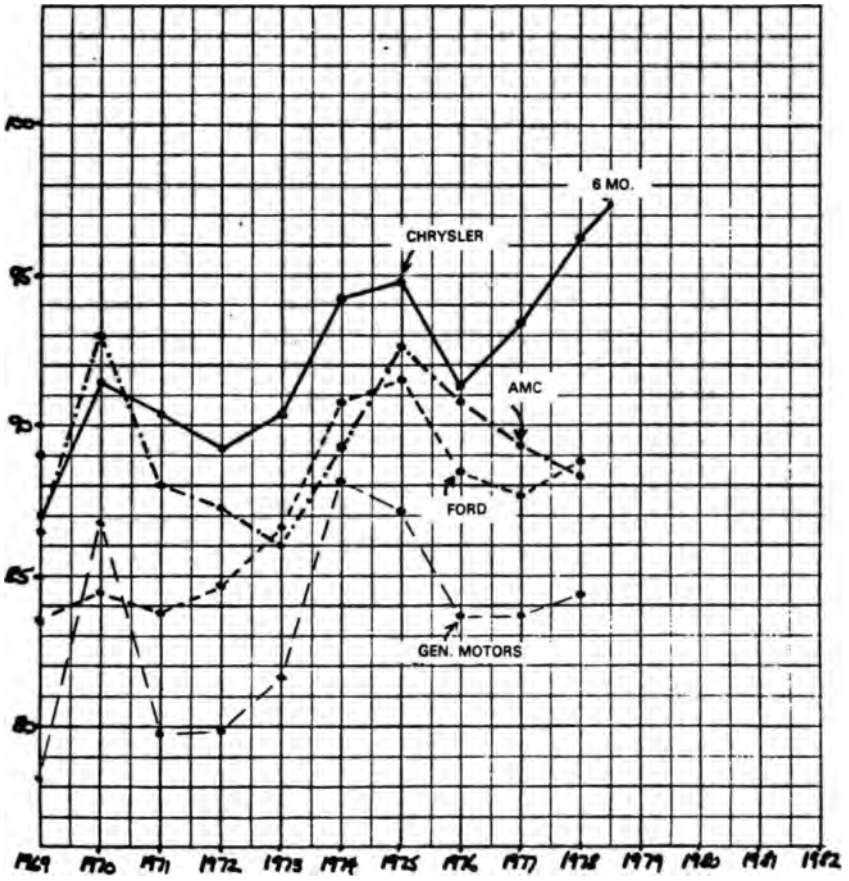
COST OF GOODS SOLD, AS % OF NET SALES



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- AN ANALYSIS OF CHRYSLER'S INCREASES IN CofGS RELATIVE TO INCREASES IN SALES REVENUE REVEALS CofGS, AS A % OF SALES, GENERALLY DECLINES ONLY WHEN SALES INCREASE BY MORE THAN 14% OVER THE PRIOR YEAR.

	% INCR. IN SALES	% INCR. IN CofGS	CofGS, % OF SALES
1970	(0.7)	4.2	91.4
1971	14.3	12.9	90.3
1972	22.0	20.5	89.2
1973	20.7	22.2	90.3
1974	(6.9)	(3.0)	94.1
1975	5.7	6.5	94.8
1976	34.0	29.0	91.3
1977	7.5	10.1	93.4
1978	(18.5)	(16.1)	96.2

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DEPRECIATION

- GRAPH SHOWS COMPARISON OF CHRYSLER'S DEPRECIATION, AS % OF SALES, WITH THAT OF KEY COMPETITORS

- ALL COMPETITORS SHOWN HAVE REDUCED DEPRECIATION %'s OVER THE PAST DECADE

- CHRYSLER'S DECLINE IS MOST DRAMATIC, A HIGHER PORTION OF EARLIER LEVELS. IT HAS JOINED AMC AT A LEVEL WHICH:

  - IS NEARLY HALF THAT OF FORD AND GM

  - REFLECTS A RELATIVELY LOWER LEVEL OF CAPITAL INVESTMENT IN RECENT YEARS.

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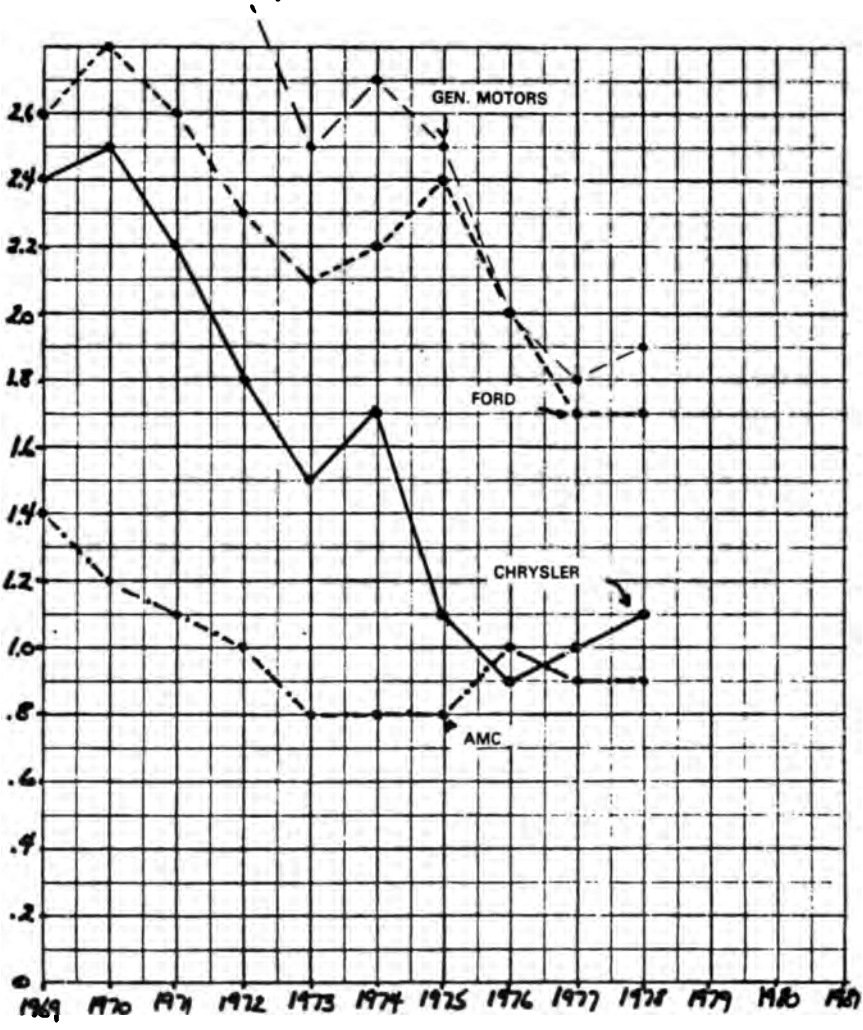
DEPRECIATION, AS % OF NET SALES



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SELLING, GENERAL AND ADMINISTRATIVE

- GRAPH MAKES SIMILAR COMPARISON
- AMC HAS VERY HIGH SG&A EXPENSES, AS % OF SALES
- CHRYSLER HAS REDUCED THESE FAIRLY STEADILY OVER THE PAST DECADE AND IS COMPARABLE TO FORD AND GM IN THIS EXPENSE CATEGORY

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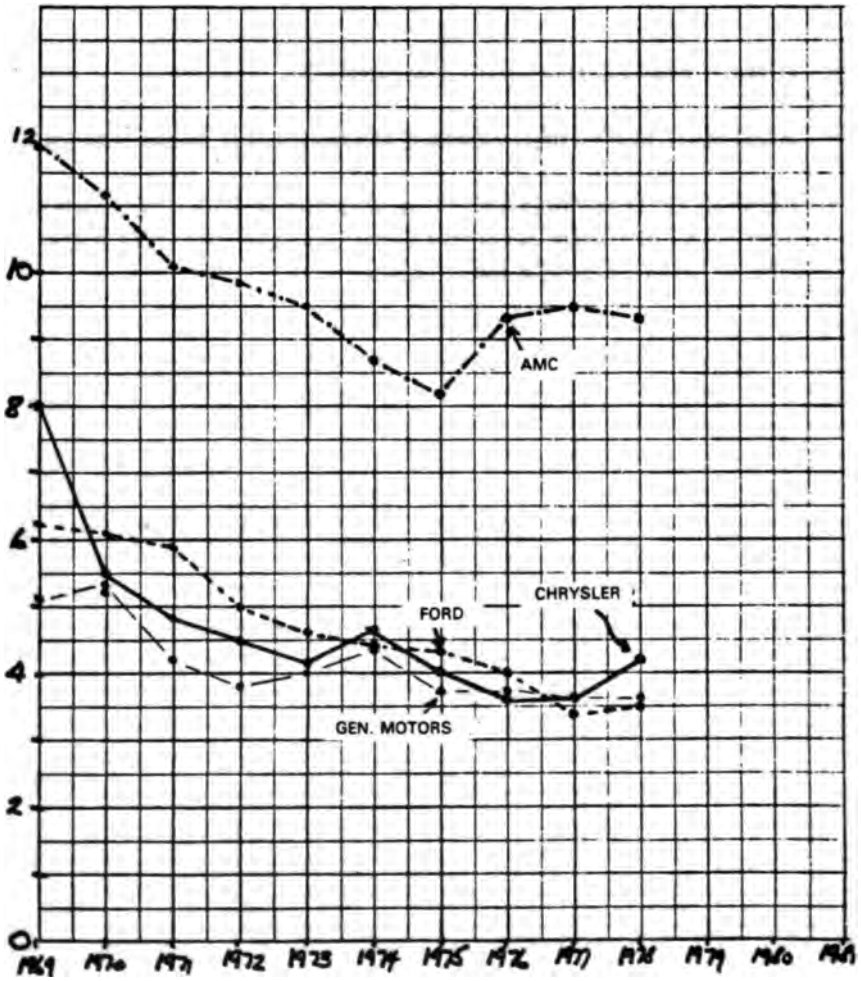
SELLING, GEN. & ADMIN. EXPENSE, AS % OF NET SALES



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OPERATING PROFIT

- GRAPH SHOWS SIMILAR COMPARISON
- EACH MANUFACTURER SHOWS CONSIDERABLE FLUCTUATION FROM YEAR TO YEAR
- GENERAL MOTORS IS CLEARLY BETTER THAN THE OTHERS AND FORD IS A DEFINITE SECOND
- AMC AND CHRYSLER HAVE EACH DIPPED SIGNIFICANTLY INTO THE NEGATIVE FIGURES PERIODICALLY, HOWEVER:
  - AMC APPEARS TO HAVE A SLIGHT FAVORABLE TREND TO ITS PATTERN
  - CHRYSLER APPEARS TO HAVE UNFAVORABLE LONGER TERM TREND AND SHARP DECLINE SINCE 1976

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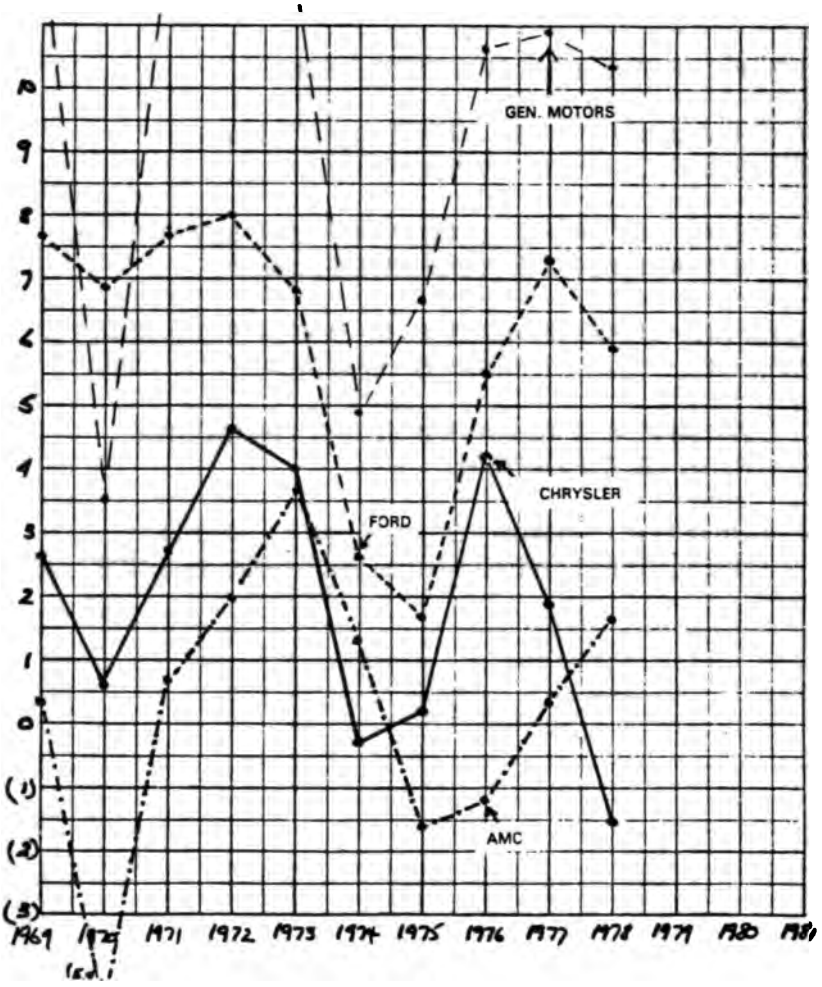
OPERATING PROFIT, AS % OF NET SALES



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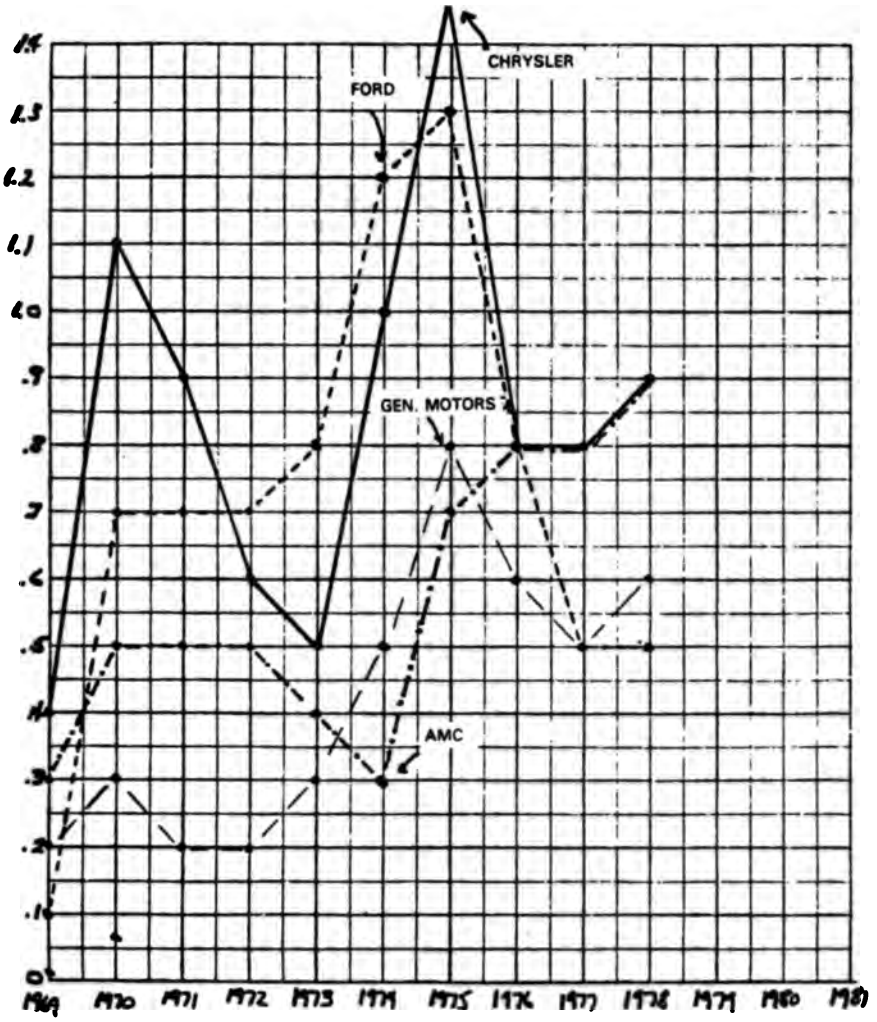
INTEREST, AS % OF NET SALES



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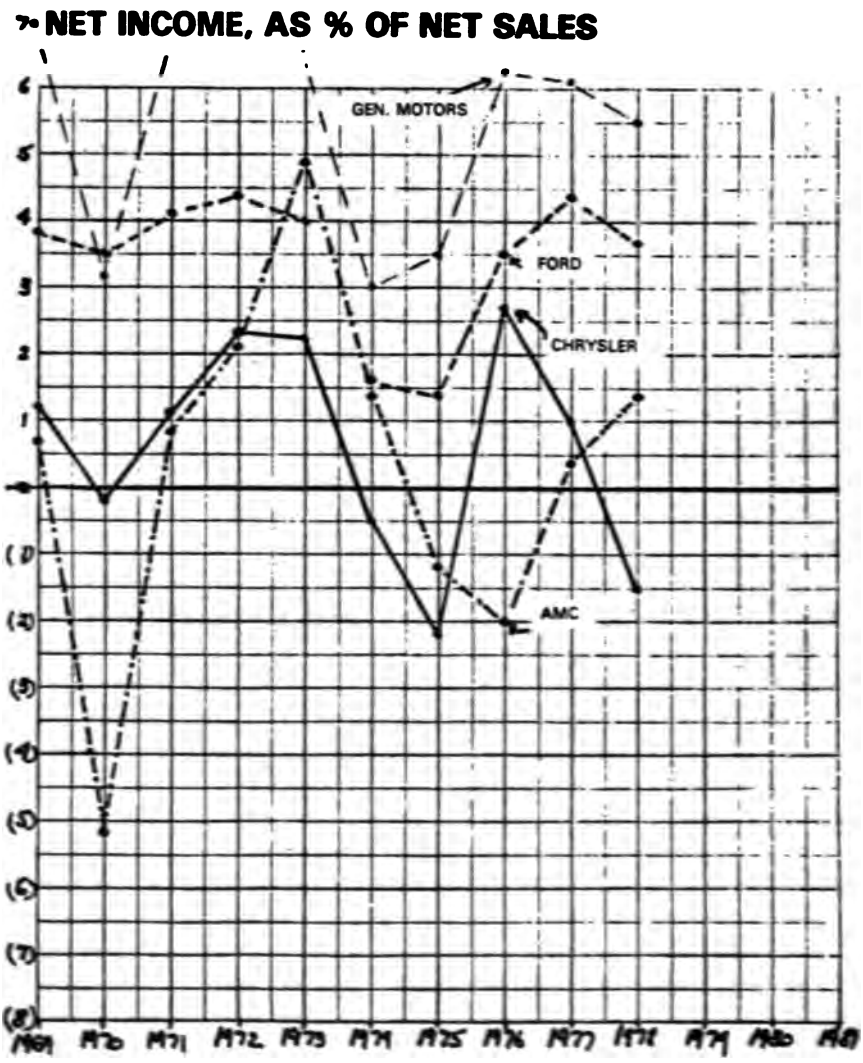

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BALANCE SHEET

CAPITALIZATION

- DEBT TO EQUITY RATIO HAS HISTORICALLY BEEN HIGHER FOR CHRYSLER VERSUS THE OTHER "BIG THREE" AND VERSUS THE INDUSTRY NORM.

- FORD AND GM HAVE ENJOYED INCREASED CASH FLOWS DUE TO THEIR PROFITABILITY AND THUS DEBT REQUIREMENTS HAVE BEEN LESS IN RELATION TO THEIR EQUITY BASES.

- THE OVERALL TREND IS UPWARD WITH THE GREATEST INCREASES DURING THE 1973 TO 1978 TIME PERIOD PARTIALLY DUE TO THE CAPITAL REQUIREMENTS ASSOCIATED WITH THE GREATER EMPHASIS ON THE SMALLER CAR MARKET.

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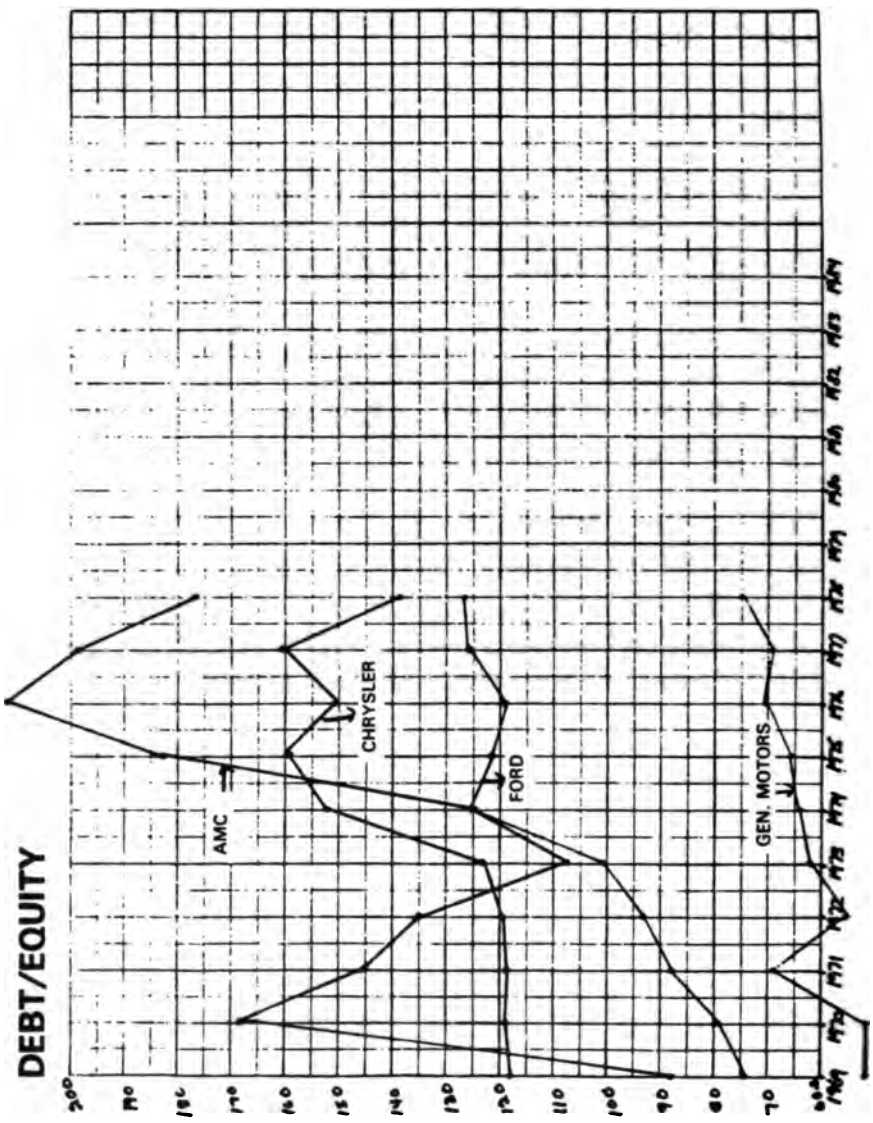

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ASSET TURNOVER

- CHRYSLER'S PAST HAS BEEN IN TUNE WITH BOTH FORD AND GM AT A LEVEL OF APPROXIMATELY 1.8
- AMC HAS TRADITIONALLY BEEN HIGHER AT AN AVERAGE OF 2.3
- THE FLUCTUATIONS (AS WITH INVENTORY TURNS) CORRELATE IN TIME WITH THE OVERALL INDUSTRY VOLUME FLUCTUATIONS
- SINCE 1976 CHRYSLER'S RATIO HAS DROPPED DRASTICALLY WHICH CAN BE ATTRIBUTED TO THEIR DECLINING MARKET SHARE

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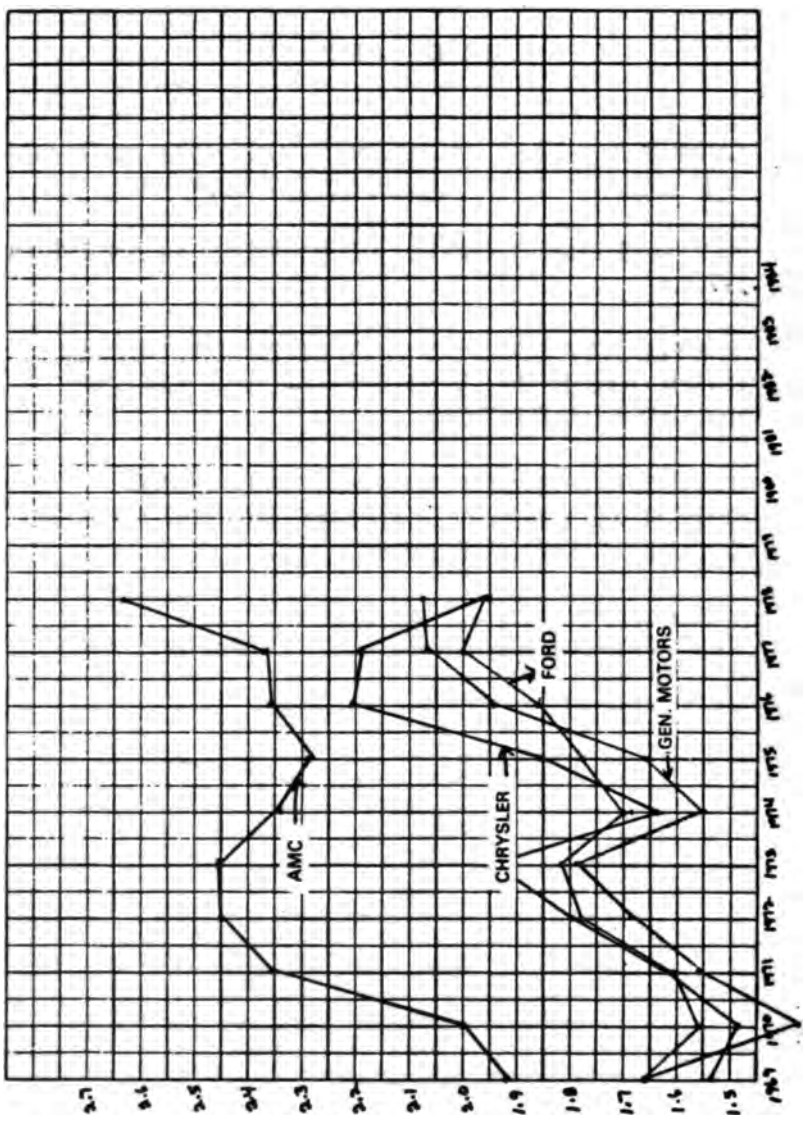

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INVENTORY TURNOVER

- CHRYSLER'S INVENTORY TURNOVER HAS HISTORICALLY BEEN LOWER THAN THE REST OF THE INDUSTRY WITH THE "STOCK INVENTORY" METHOD AS ONE MAJOR FACTOR

- ANOTHER POSSIBLE FACTOR WOULD BE THE PAST TIMING PROBLEMS WITH LAUNCHING OF NEW MODELS WHICH HAS BOOSTED INVENTORIES ON A SHORT TERM BASIS

- THE FLUCTUATIONS CORRELATE PRECISELY IN TIME WITH THE INDUSTRY VOLUME FLUCTUATIONS

- 10 YEAR AVERAGE INVENTORY TURNS

CHRYSLER	6.0
GM	6.7
FORD	6.6
AMC	7.2
VLO5 (5 YEAR)	6.5
AGGREGATION (5 YEAR)	6.9

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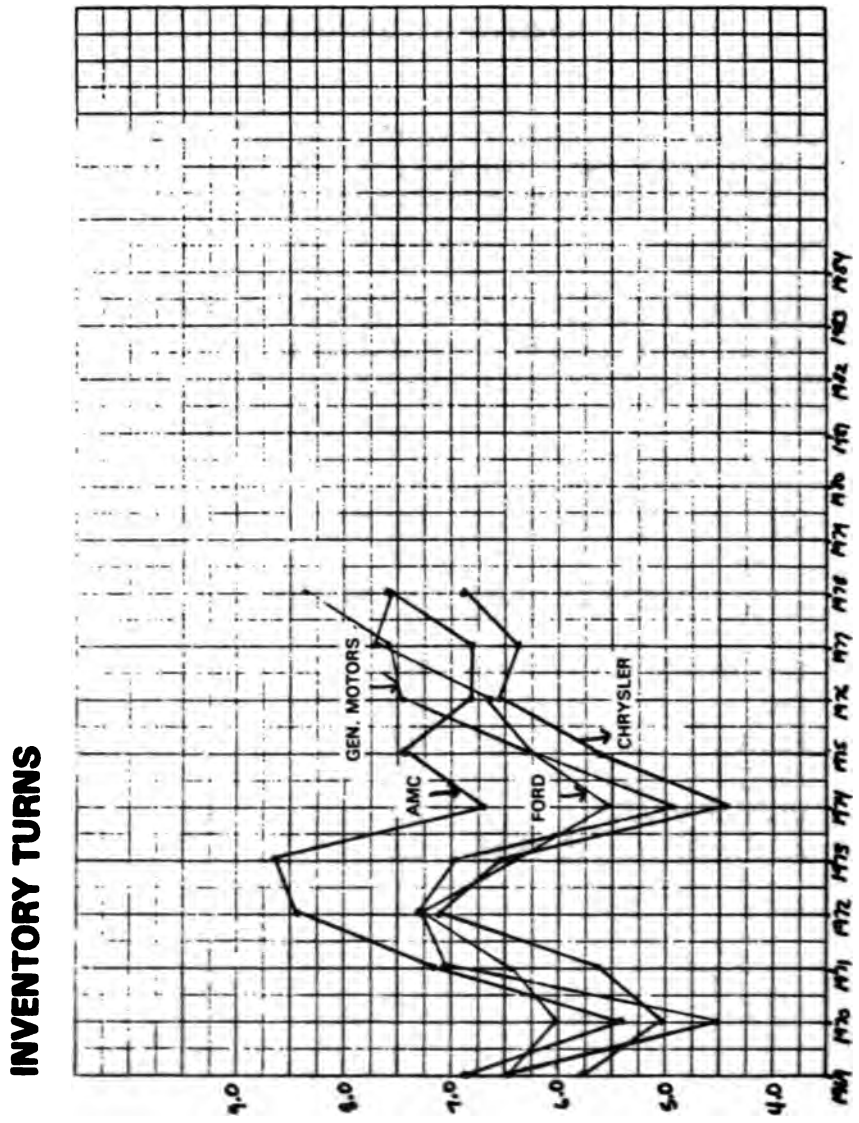

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CURRENT RATIO

- CHRYSLER'S HISTORY MATCHES THAT OF FORD AND AMC AT AN AVERAGE VALUE OF 1.4
- GM HAS TRADITIONALLY ENJOYED A HIGHER CURRENT RATIO AVERAGING 2.0 WHICH CORRELATES WITH THEIR SIGNIFICANT LOWER DEPENDENCE ON DEBT

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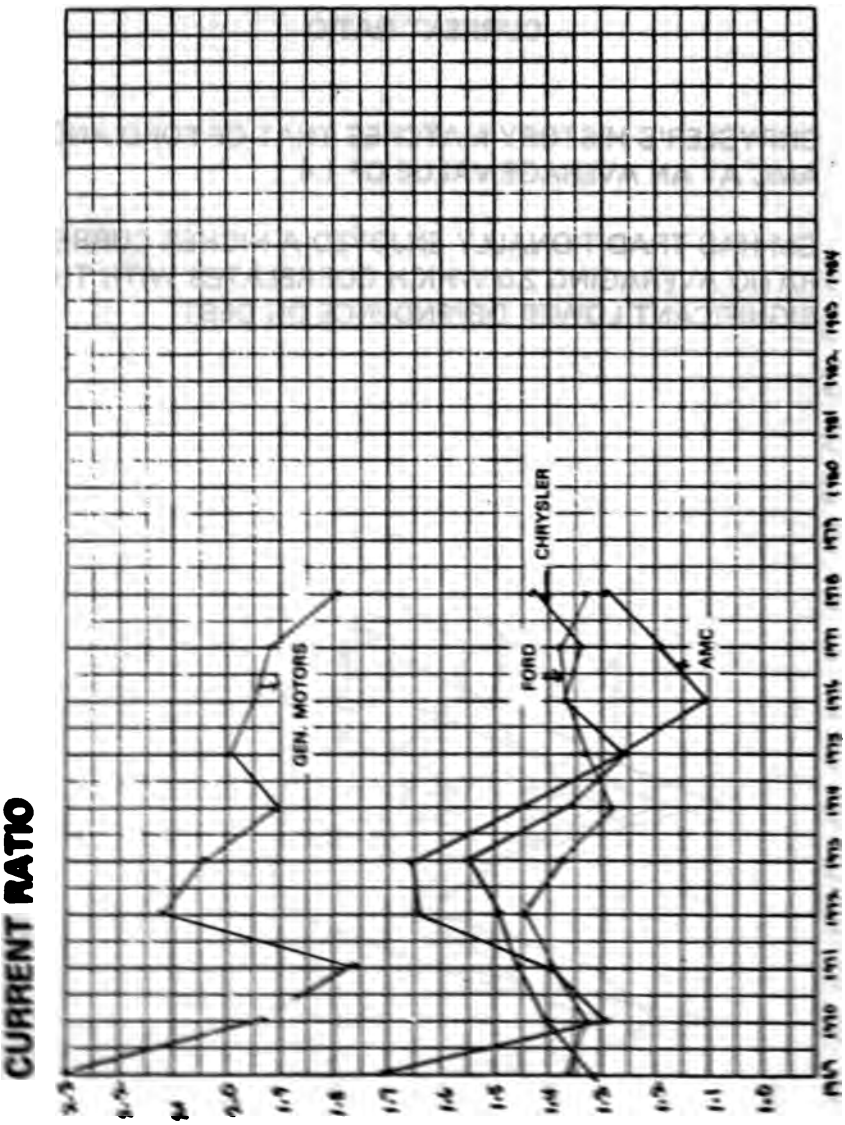

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CAPITAL SPENDING

- CHRYSLER'S CAPITAL SPENDING IN RELATION TO SALES AND NET PROPERTY, PLANT, AND EQUIPMENT HAS BEEN IN TUNE WITH THE SAME STATISTICS FOR FORD AND GM

- AMC EMBARKED ON AN AGGRESSIVE PROGRAM IN THE 1972 TO 1975 TIME FRAME AND HAS SINCE SLOWED CONSIDERABLY AS THEY CONCENTRATE ON SELECTED MARKET SEGMENTS

- THE TREND TYPICALLY LAGS THE FLUCTUATION IN INDUSTRY VOLUME BY ONE YEAR

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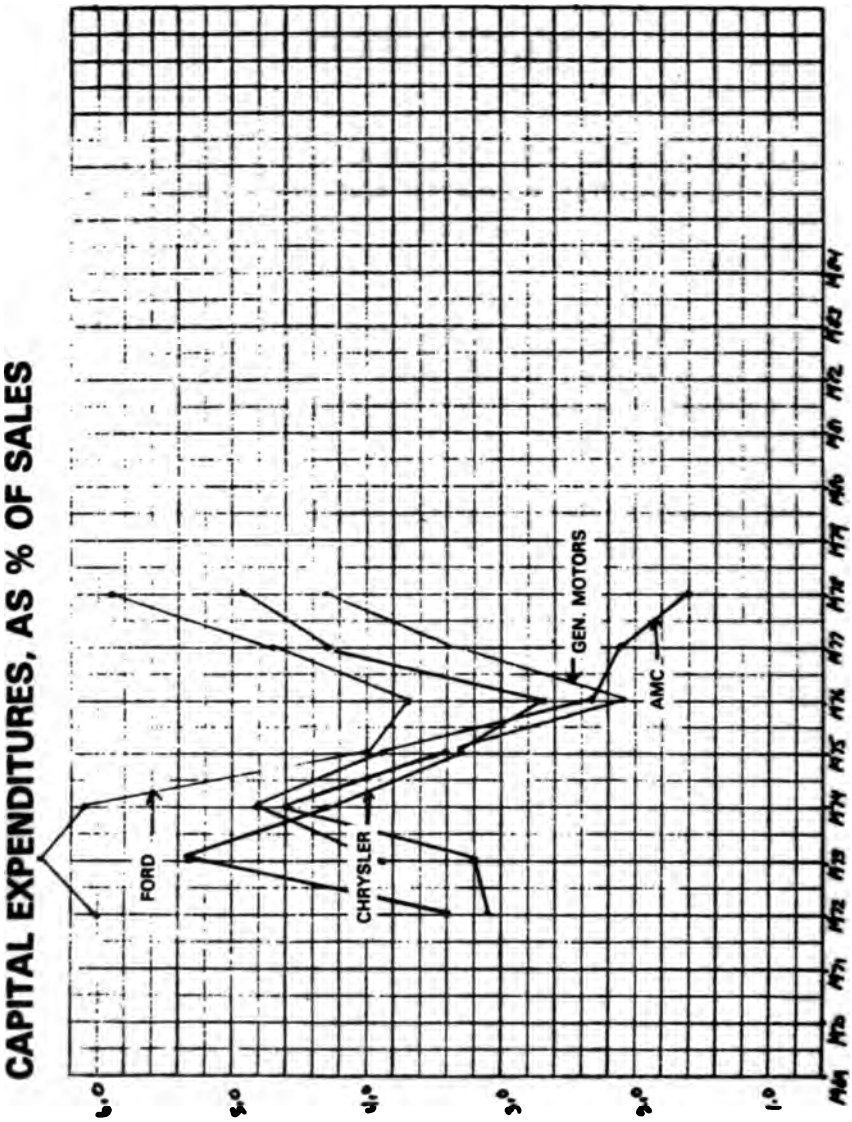

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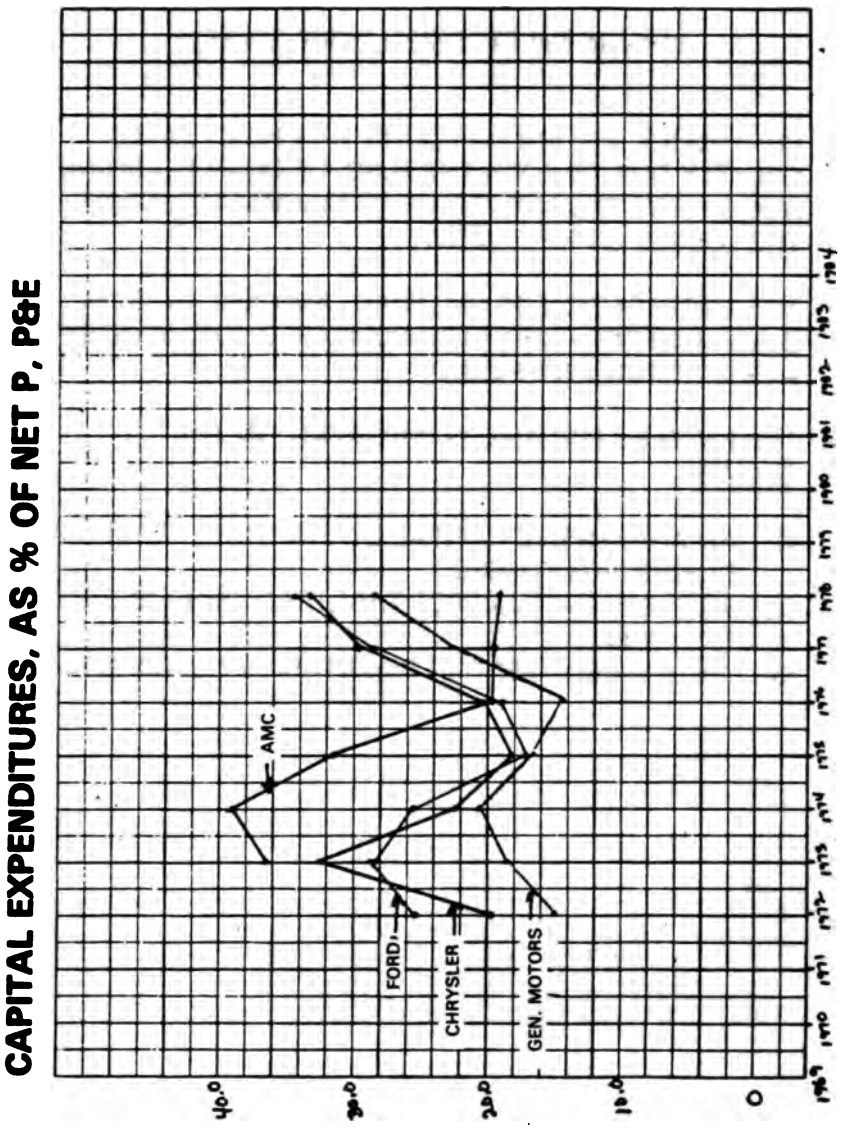

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RETURN ON STOCKHOLDERS' EQUITY

- CHRYSLER'S RETURN ON EQUITY HAS FLUCTUATED GREATLY DUE TO BOTH THE FLUCTUATION IN EARNINGS AND THE ATTENDANT EFFECT OF THE MAGNITUDE OF THE LOSSES ON NET WORTH

- THE AGGREGATION OF GM, FORD, AND AMC IS 15.1% OVER THE LAST FIVE YEARS COMPARED TO CHRYSLER'S AVERAGE RETURN OF 2.8%

- THE PATTERN FOR AMC IS IMPORTANT IN THAT IT SHOWS

  (1) AN AGGRESSIVE CAPITAL EXPENDITURE PROGRAM DURING 1973 TO 1975
  (2) A DETERIORATING PROFITABILITY DURING 1973 TO 1976, AND
  (3) AN UPWARD TREND IN PROFITABILITY SINCE 1976

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INDUSTRY COMPARISON
Chrysler Corporation
1974

	Chrysler	Ford	AMC	GM	*AGG	Total Industry
	1974	1974	1974	1974	1974	1974
Annual Growth Rates (%):						
Net Sales	N/A	N/A	N/A	N/A	N/A	N/A
Operating Profit	N/A	N/A	N/A	N/A	N/A	N/A
Net Income	N/A	N/A	N/A	N/A	N/A	N/A
Earnings per Share	N/A	N/A	N/A	N/A	N/A	N/A
Profitability Ratios (%):						
Net Profit Margin	(0.4%)	1.43	1.00	3.01	2.39	2.14
Gross Profit Margin	3.9%	9.21	10.39	11.94	10.77	10.38
Return on Tangible Assets	(0.7%)	2.70	2.23	4.67	3.09	3.43
Return on Total Assets	(0.7%)	2.73	2.19	4.64	3.05	3.40
Return on Common Stock	(1.8%)	6.20	7.38	7.71	7.38	6.71
Return on Owner's Equity	(1.8%)	6.20	7.38	7.63	7.16	6.68
Liquidity Ratios:						
Current Ratio	1.34	1.28	1.44	1.71	1.61	1.59
Quick Ratio	0.46	0.48	0.62	0.86	0.68	0.63
Working Cap. to L.T.Debt	0.99	1.82	1.99	4.32	2.94	2.38
Debt Position (%):						
Tot. Liab. to Tot. Assets	60.3%	58.6%	58.6%	38.9%	48.8%	48.7%
Total Liab. to Equity	152.4%	125.3%	125.4%	63.7%	95.1%	93.6%
L.T.D. to Capitalization	27.8%	27.1%	27.0%	6.8%	11.2%	14.9%
Coverage Ratios:						
Fixed Charges	1.4X	4.9%	9.8%	15.9%	8.9%	6.7%
Times Interest Earned	0.7X	4.0%	8.2%	13.3%	7.1%	5.4%
Working Capital:						
Current Assets	3,699.1%	6,801.2%	372.1%	11,644.8%	18,799.1%	24,494.8%
Current Liabilities	2,792.3%	5,303.9%	256.1%	6,102.8%	11,799.2%	15,471.9%
Net Working Capital	907.8%	1,300.3%	157.8%	5,541.9%	9,199.3%	9,122.8%
Turnover Ratios:						
Inventory	4.4%	8.2%	6.7%	4.9%	5.2%	4.9%
Fixed Assets	2.2%	4.1%	7.7%	4.4%	4.2%	4.0%
Tangible Assets	1.4%	1.7%	2.3%	1.3%	1.6%	1.4%
Investment Indicators:						
Book Value per Share	N/A	N/A	N/A	N/A	70.4%	N/A
Earnings per Share (Primary	(0.8%)	3.2%	0.9%	2.2%	2.6%	2,220.2%
Earnings per Share (F.D.)	(0.8%)	3.0%	0.8%	2.2%	2.3%	2,743.2%
Dividends per Share	1.6%	2.5%	0.1%	2.4%	2.2%	2,437.7%
Price Earnings Ratio	(8.8%)	5.8%	2.6%	7.4%	7.0%	8.0%

*AGG = GMC + AMC + Ford

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INDUSTRY COMPARISON
Chrysler Corporation
1975

	Chrysler	Ford	AMC	GM	*AGG	Total Industry
	1975	1975	1975	1975	1975	1975
Annual Growth Rates (%):						
Net Sales	5.71	1.64	14.10	12.22	8.48	7.13
Operating Profit	153.37	(22.15)	(242.22)	53.10	25.09	22.42
Net Income	(421.62)	(11.51)	(197.73)	31.90	14.72	(11.64)
Earnings per Share	(404.56)	(13.38)	(196.61)	32.21	16.15	(12.16)
Profitability Ratios (%):						
Net Profit Margin	(0.34)	1.42	(1.38)	3.24	2.53	1.77
Gross Profit Margin	5.24	8.48	7.43	12.94	11.01	10.45
Return on Tangible Assets	(4.17)	2.52	(2.73)	5.21	4.24	2.98
Return on Total Assets	(4.14)	2.47	(2.72)	5.00	4.20	2.97
Return on Common Stock	(10.77)	5.33	(7.78)	9.76	8.60	5.84
Return on Owner's Equity	(10.77)	5.35	(7.78)	9.65	8.63	5.84
Liquidity Ratios						
Current Ratio	1.27	1.33	1.27	1.99	1.69	1.65
Quick Ratio	0.63	0.57	0.63	1.11	0.84	0.89
Working Cap. to L.T.Debt	0.84	1.09	1.01	0.33	2.04	2.12
Debt Position (%):						
Tot. Liab. to Tot. Assets	61.39	54.44	64.66	37.72	46.89	48.64
Total Liab. to Equity	159.46	122.34	182.96	60.72	88.84	93.73
L.T.D. to Capitalization	36.79	19.96	38.43	8.89	13.87	14.64
Coverage Ratios:						
Fixed Charges	0.66	4.36	(0.02)	11.44	7.78	3.93
Times Interest Earned	0.93	3.33	(0.34)	10.87	6.48	3.94
Working Capital:						
Current Assets	3,116.60	6,458.10	612.62	12,839.89	20,106.60	34,578.00
Current Liabilities	2,463.38	4,907.36	483.67	6,448.47	11,910.00	19,863.10
Net Working Capital	654.49	1,550.66	128.96	6,394.91	8,188.57	9,813.73
Turnover Ratios:						
Inventory	5.61	6.31	7.46	6.38	6.33	5.93
Fixed Assets	2.31	2.91	2.96	3.62	4.78	4.88
Tangible Assets	1.84	1.77	2.38	1.46	1.72	1.76
Investment Indicators:						
Book Value per Share	N/A	N/A	N/A	N/A	76.64	N/A
Earnings per Share (Primary)	(4.32)	3.91	(0.72)	4.33	4.19	2,512.84
Earnings per Share (F.D.)	(4.19)	3.48	(0.84)	4.33	3.93	2,429.74
Dividends per Share	0.80	2.87	0.86	2.48	2.71	1,037.39
Price Earnings Ratio	(2.34)	12.16	(8.86)	13.32	13.93	0.00

*AGG = GMC + AMC + Ford

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INDUSTRY COMPARISON
Chrysler Corporation
1976

	Chrysler	Ford	AMC	GM	*AGG	Total Industry
	11.6	1976	1976	1976	1976	1976
Annual Growth Rates (%):						
Net Sales	33.49	20.19	1.46	22.07	26.1[illegible]	27.76
Operating Profit	3,343.4	283.39	24.63	110.44	138.0[illegible]	134.58
Net Income	343.3	173.34	(43.87)	121.44	146.4[illegible]	234.78
Earnings per Share	343.4	174.56	(47.98)	123.40	148.1[illegible]	239.41
Profitability Ratios (%):						
Net Profit Margin	2.2	3.86	(2.80)	4.15	4.9[illegible]	4.63
Gross Profit Margin	8.3	11.39	7.69	14.38	14.38	13.74
Return on Tangible Assets	4.1	6.12	(4.73)	11.04	9.48	8.98
Return on Total Assets	2.7	6.48	(4.67)	11.93	8.41	8.83
Return on Common Stock	15.1	14.22	(14.98)	34.44	18.86	17.78
Return on Owner's Equity	15.1	14.28	(14.98)	30.32	17.82	17.82
Liquidity Ratios:						
Current Ratio	1.7	1.37	1.11	1.78	1.48	1.48
Quick Ratio	0.4	0.65	0.48	1.16	0.72	0.87
Working Cap. to L.T.Debt	1.0	1.39	0.34	7.84	3.88	3.74
Debt Position (%):						
Tot. Liab. to Tot. Assets	38.4	53.95	68.89	41.31	44.83	49.89
Total Liab. to Equity	100.1	119.97	218.44	70.49	88.72	97.39
L.T.D. to Capitalization	27.12	16.81	36.49	6.97	10.68	14.47
Coverage Ratios:						
Fixed Charges	4.3	11.75	0.37	22.88	17.41	13.84
Times Interest Earned	6.16	10.63	0.68	21.34	15.85	12.72
Working Capital:						
Current Assets	3,878.77	8,342.38	397.33	15,672.48	24,312.48	28,672.76
Current Liabilities	2,288.72	5,996.88	357.34	7,916.88	14,280.48	17,992.16
Net Working Capital	1,888.3	2,345.78	39.79	7,886.88	9,842.89	12,881.68
Turnover Ratios:						
Inventory	6.8	6.68	6.81	7.48	7.11	6.78
Fixed Assets	7.18	8.17	8.82	4.37	6.11	6.18
Tangible Assets	8.4	1.86	2.36	1.04	1.47	1.82
Investment Indicators:						
Book Value per Share	1.78	N/A	N/A	N/A	88.34	N/A
Earnings per Share (Primary)	7.81	8.87	(1.56)	10.18	15.36	8,827.78
Earnings per Share (F.D.)	4.81	7.89	(1.28)	10.16	14.37	8,260.48
Dividends per Share	0.38	2.84	0.00	8.84	7.38	3,438.88
Price Earnings Ratio	2.98	8.74	(2.48)	7.37	7.32	0.00

*AGG = GMC + AMC + Ford

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INDUSTRY COMPARISON
Chrysler Corporation
1977

	Chrysler	Ford	AMC	GM	*AGG	Total Industry
	1977	1977	1977	1977	1977	1977
Annual Growth Rates (%):						
Net Sales	7.53	21.31	(3.37)	14.47	21.12	19.48
Operating Profit	(20.42)	23.04	125.13	19.39	23.58	23.71
Net Income	(41.28)	44.39	117.89	14.97	27.73	20.31
Earnings per Share	(41.01)	68.19	119.89	12.38	22.44	19.86
Profitability Ratios (%):						
Net Profit Margin	0.98	4.43	0.37	4.89	3.38	4.44
Gross Profit Margin	6.58	12.31	10.73	14.39	14.58	13.85
Return on Tangible Assets	3.14	8.72	0.86	13.89	10.74	9.41
Return on Total Assets	2.13	17.84	2.88	21.88	20.79	19.88
Return on Common Stock	3.38	19.84	2.88	21.39	20.89	18.98
Return on Owner's Equity	3.38					
Liquidity Ratios:						
Current Ratio	1.34	1.32	1.11	1.92	1.44	1.44
Quick Ratio	0.38	0.76	0.58	1.88	0.98	0.88
Working Cap. to L.T.Debt	0.84	2.38	1.14	7.14	4.58	3.88
Debt Position (%):						
Tot. Liab. to Tot. Assets	161.61	88.33	84.49	84.88	87.47	87.78
Total Liab. to Equity	161.34	134.83	198.39	89.73	98.71	97.98
L.T.D. to Capitalization	37.78	13.88	21.19	8.48	9.38	11.88
Coverage Ratios:						
Fixed Charges	2.74	19.84	2.88	128.88	28.88	16.48
Times Interest Earned	2.34	17.88	2.38	34.38	29.87	19.18
Working Capital:						
Current Assets	4,128.88	18,878.48	618.88	19,987.38	37,487.48	35,914.38
Current Liabilities	2,887.98	7,883.88	317.48	8,386.98	14,738.38	21,888.38
Net Working Capital	1,488.98	2,988.38	98.48	7,488.38	18,717.38	13,128.88
Turnover Ratios:						
Inventory	6.38	7.38	6.88	7.88	7.48	7.38
Fixed Assets	8.88	4.88	8.38	4.38	4.88	4.48
Tangible Assets	2.18	3.88	2.38	1.88	1.88	2.48
Investment Indicators:						
Book Value per Share	N/A	N/A	N/A	N/A	N/A	N/A
Earnings per Share (Primary)	2.71	14.18	0.38	11.88	28.38	10,227.48
Earnings per Share (F.D.)	2.63	12.98	0.38	11.88	18.88	9,888.18
Dividends per Share	0.88	3.88	0.88	4.88	1.38	4,843.78
Price Earnings Ratio	6.88	3.38	18.18	3.88	6.38	0.88

*AGG = GMC + AMC + Ford

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INDUSTRY COMPARISON
Chrysler Corporation
1978

	Chrysler	Ford	AMC	GM	*AGG	Total Industry
	1978	1978	1978	1978	1978	1978
Annual Growth Rates (%):						
Net Sales	(10.09)	13.04	18.99	18.03	14.26	9.53
Operating Profit	(144.72)	(7.98)	479.09	8.42	3.66	(1.34)
Net Income	(223.37)	(4.33)	343.11	5.11	2.51	(2.83)
Earnings per Share	(226.67)	(5.22)	341.83	5.33	2.79	(4.76)
Profitability Ratios (%):						
Net Profit Margin	(1.36)	2.79	1.42	5.35	4.74	4.89
Gross Profit Margin	3.00	11.11	11.72	13.69	13.66	13.64
Return on Tangible Assets	(2.93)	7.33	3.73	11.53	9.68	8.15
Return on Total Assets	(2.93)	7.26	3.69	11.53	9.67	8.12
Return on Common Stock	(8.05)	16.90	10.25	20.43	18.73	16.52
Return on Owner's Equity	(4.97)	16.28	10.25	20.17	18.78	16.34
Liquidity Ratios:						
Current Ratio	1.43	1.22	1.39	1.39	1.34	1.38
Quick Ratio	0.64	0.72	0.14	1.04	0.88	0.84
Working Cap. to L.T.Debt	0.89	2.70	1.93	5.12	5.00	3.15
Debt Position (%):						
Tot. Liab. to Tot. Assets	58.81	58.33	64.00	42.83	48.47	58.68
Total Liab. to Equity	130.39	134.82	177.77	74.92	94.37	100.83
L.T.D. to Capitalization	29.14	10.38	18.67	8.33	7.44	11.67
Coverage Ratios:						
Fixed Charges	(0.62)	19.84	3.87	22.00	20.36	14.11
Times Interest Earned	(0.22)	14.36	3.96	20.53	18.43	13.37
Working Capital:						
Current Assets	3,341.00	12,279.40	660.64	17,999.30	31,939.34	37,065.30
Current Liabilities	2,465.00	9,276.00	514.70	10,000.00	19,843.30	23,452.00
Net Working Capital	1,876.00	3,003.89	151.94	7,940.90	11,193.40	13,612.40
Turnover Ratios:						
Inventory	6.00	7.30	7.40	8.24	8.01	7.88
Fixed Assets	6.60	8.77	11.67	4.58	4.30	4.79
Tangible Assets	1.75	1.16	2.43	2.00	2.04	1.99
Investment Indicators:						
Book Value per Share	N/A	N/A	N/A	N/A	111.75	N/A
Earnings per Share (Primary)	(3.43)	12.42	1.32	12.22	21.15	9,734.45
Earnings per Share (F.D.)	(3.35)	12.30	1.08	12.22	20.43	9,522.34
Dividends per Share	0.81	3.09	0.00	4.00	6.77	4,312.15
Price Earnings Ratio	(2.52)	3.14	3.71	4.39	4.00	0.00

*AGG = GMC + AMC + Ford

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APPENDIX 3

REVIEW OF CHRYSLER CORPORATION'S
PROPOSAL FOR FEDERAL ASSISTANCE

November 1, 1979

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REVIEW OF CHRYSLER CORPORATION'S PROPOSAL FOR FEDERAL ASSISTANCE

I. INTRODUCTION AND SCOPE

On October 17, 1979, Chrysler Corporation (Chrysler) submitted a revised request to the U.S. Treasury Department for Federal goverment financing aid and a financial plan presenting the results Chrysler projected should the aid be granted. While various alternative courses of action were discussed, the plan presented a single forecast of expected results. In addition to a presumption of obtaining needed financing through Federal aid and other sources, the financial plan incorporates several key assumptions by Chrysler as to conditions and accomplishments which would enable Chrysler to regain financial viability. Particularly crucial among Chrysler management's assumptions and conclusions are that:

1. The market for cars and trucks in the U.S. would continue along an historical trend line unaffected by the swings of the national economic cycle.

2. Product and marketing actions by Chrysler would result in regaining market share levels lost in recent years.

3. A wide range of management actions in all areas of corporate activity would materially improve variable margins--revenues less variable costs--thereby eliminating losses and moving the Company toward a profitable position during the forecast period.

4. Aggressive evaluation and stringent control of fixed costs would further contribute to profit improvement.

5. There will not be significant adverse changes to the Chrysler dealer network.

6. A $13 billion investment program is necessary from 1979 through 1985 to enable Chrysler to accomplish the projected improvements.

7. Chrysler will experience a critical cash shortfall, peaking at $2.1 billion in 1982, in executing the plan.

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8. Chrysler's financial condition precludes raising all of the funds needed to restore financial health from traditional private sources, but Chrysler can survive with Federal government financing assistance.

9. The net result of all of the above would be a healthy, restructured corporation which could repay incurred debt and function as an important and self-sufficient member of our domestic economy.

10. Failure to receive Federal aid will result in corporate collapse with national hardships--to the economy, employment, balance of payments, etc.--far more costly to our society than the amount of Federal aid sought.

A special review was initiated to evaluate Chrysler's submission. The review was conducted on behalf of the Treasury Department by the international accounting and consulting firm of Ernst & Whinney in cooperation with automative expert John C. Secrest, retired Group Vice President of Corpoarate Staffs for American Motors Corporation. It was conducted for the exclusive use of the Treasury Department in connection with our evaluation of Chrysler's proposal for assistance and is not to be relied on by others. The purpose of their review was not to come to a conclusion or recommendation on Chrysler's request for Federal assistance, but, rather, was designed to provide Treasury Department officials with that information we considered important in the decision making process.

The projections included herein are based on assumptions, originally developad by Chrysler management, of future events which should not be construed as statements of fact. The scope of this review did not include a comprehensive evaluation of the assumptions which underly the projections and, therefore, Ernst & Whinney and John C. Secrest were unable to comment as to the reasonableness of the assumptions as a basis for such

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projections. The assumptions may be affected favorably or unfavorably by future events and, therefore, the actual results achieved during the projection periods extending to December 31, 1983, may vary significantly from the projections.

The scope of Ernst & Whinney's and John C. Secrest's work does not provide for updating or revising their review for events and circumstances which may occur subsequent to November 1, 1979.

Emphasis of the review was on:

- Use of the most currently available information.
- Assessment of the difficulty of meeting planned accomplishments.
- Consequences of achieving lesser degrees of accomplishment due to either the rate of internal progress toward objectives or unfavorable external conditions.

The scope of this work did not include an evaluation of Chrysler Corporation's forecasted market share assumptions or dealer organization, nor did it include an engineering cost analysis of Chrysler's cost estimates related to new product plans. Also, because of severe time constraints, the review conducted was confined to North American Automotive operations, and was not comprehensive in nature, but rather, focused on what the Treasury Department considered priority areas.

Since forecasts of events are increasingly uncertain with each more distant future year, this review focuses on the 1980-1983 period, rather than the 1980-1985 period included in Chrysler's plan. This period

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appears to be sufficiently long to encompass important model year decisions which must be made in the near term. Current decisions will heavily impact 1980-1982 expenditures for 1983 models to be introduced in late 1982. Decisions during 1980 will set investment plans for 1981-1983 relating to 1984 models to be introduced in late 1983. Both the 1983 and 1984 model year programs presently planned involve substantial product actions and expenditures. Decisions beyond the 1984 model year are subject to reevaluation and redirection beyond 1980 and mid-1981 as progress on executing earlier phases of the recovery plan becomes known. Similarly, projections of cost and revenue relationships, improvement program results, market conditions and other factors as far forward as 1984 are necessarily based on very broad assumptions. Consequently, the review focuses on the outlook through 1983.

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II. CONSTRUCTION OF PLAN ANALYSIS

Key assumptions of Chrysler's plan addressed by this review were analyzed under the following considerations:

1. Economic forecasts made subsequent to June 30, 1979 (the date of the economic forecasts included in the October 17 submission) have significantly reduced estimates of U.S. automotive sales for 1980 and 1981. Also, Chrysler has similarly lowered market size estimates in its 1980 budget plan currently under preparation.

2. Chrysler has more recent information on expected results of improvement programs, labor negotiations, and other matters since the October 17 submission was prepared.

3. A review of the difficulty and potential of attaining fixed cost and variable margin improvement objectives was performed, and some estimated adjustments to attainment were made based upon the findings of the review.

4. Some sensitivity tests using combinations of decreases in market size and market share were performed to indicate generally the magnitude of risk associated with decreased Chrysler sales volume.

5. The possible magnitude of capital expenditure program reductions, in the event such actions become necessary, was revised.

A computerized corporate financial model consistent with the Chrysler submission was developed by Ernst & Whinney to permit analysis of the above considerations and their impact on profitability and cash needs. The analyses were performed on two basic plans, and further analyzed at three levels of Chrysler sales volume.

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VOLUME ASSUMPTIONS

Both base cases reviewed in this study use idential assumptions for Chrysler sales volume and mix. Estimates from Chrysler's October 17 submission are significantly reduced for 1980 and are reduced to a lesser degreee in 1981 and 1982. These changes incorporate the most recent projections of U.S. automotive sales for 1980-1981 from Chase (Chase Econometrics) Auto and Data Resources Inc. (DRI). Estimates for 1983 are unchanged from Chrysler's October 17, 1979, submission. The specific Chrysler volume and mix for 1980 are preliminary figures Chrysler is using in developing its internal 1980 budget plan. These estimates are based on the scaled down market size foreseen by Chase and DRI. Exhibits A and B show graphically the total U.S. car and truck market size assumptions included in Chrysler's October 17 submission and the revised estimates used in this study. Exhibit C shows the industry volume and Chrysler market share statistics as submitted and the revised estimates.

Both base cases also include analyses with Chrysler volumes at 95% and 90% of the revised estimates. These analyses were made to indicate the magnitude of change in results in profitability and cash needs (without regard to management actions that might be taken) should either the Chrysler market share drop or the industry volume drop, or some combination of the two. The analyses should not be construed to represent Chrysler's future sales volumes, nor should they be considered the maximum "downside risk" which the Company might experience. Rather, these reduced volume analyses provide a basis for assessing sensitivity, or risk, when volume is reduced. Exhibit C shows the industry volume and market share assumptions

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represented by the 95% and 90% volume levels.

First Base Case

The first revision of Chrysler's October 17 submission, referred to herein as the First Base Case, is essentially an updating of the original submission to incorporate the most recently available information:

1. The volume revisions just described.
2. Changes to costs and revenues resulting from more current information on the Fixed Cost Reduction program and Variable Margin Improvement program.
3. The October 1979 labor contract settlement of the U.A.W.
4. Various other minor adjustments to the original submission.
5. Modification of future interest expense charges to incorporate an assumption that $650* million of the cash shortfall is funded internally (e.g., from asset disposition) The projected cash deficits included in this document do not give effect to the actual receipt of the $650 million in funds from the sale of assets because this document s purpose is to identify total estimated cash needs under the various alternatives analyzed.

Second Base Case

The second level of revision, or Second Base Case, includes all of the changes from the Chrysler submission included in the First Base Case plus additional changes based on a review of Chrysler's improvement programs--the Fixed Cost Reduction program and the Variable Margin Improvement (VMI) program. These two programs were reviewed to estimate the difficulty of meeting program goals.

* This number was suggested by Chrysler's financial advisors as an amount that could be raised by Chrysler from sale of assets.

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REVISED ESTIMATES OF PROFITABILITY AND CASH NEEDS

Application of the assumptions of the two revised cases produces the profitability and cash needs estimates shown in Exhibit D, which also includes the Chrysler October 17 submission figures as a reference. The schedule indicates the general magnitude of the effect of the alternative assumptions prepared in a manner consistent with Chrysler's submission.

Particularly noteworthy are the cash needs shown for the Second Base Case at revised volumes and at the 95% level of attainment of revised volumes--$3.2 billion and $4 billion respectively. The $3.2 billion includes all identified changes since the submission plus estimates to recognize difficulties in achieving certain profit improvement programs. The $4.0 billion includes the effect of a 5% shortfall in Chrysler sales volume which might occur for any of a variety of reasons--such as reduced industry volume or not meeting market share goals.

Note, however, that the estimates presented in Exhibit D include the full effect of the capital program Chrysler incorporated in the October 17 submission.

Estimated Cash Needs With Modified Capital Program

At some level of cash needs, a reduction of the scope of the capital program becomes warranted to reach an "affordable" level, even though product programs and efficiency results may be compromised. A general review of the capital program indicated that a reduction of as much as $1.0 billion is feasible in the crucial 1980-1983 period by a combination of

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trimming, delaying and deleting programs and projects. This curtailment would carry with it a reduction in variable profit margins from vehicle sales due to lesser attainment of efficiency goals and possibly reduced appeal of product offerings. This shortfall would be more than offset initially by interest expense reduction and reduced program related fixed expenses. Exhibit E shows the projected impact on profitability and cash needs of a $1.0 billon curtailment of capital programs during 1980-1983 period. The Exhibit indicates a reduction in peak net cash needs of approximately $950 millon in the critical 1980-1983 period. The profit reduction consequences of the capital program modifications would extend beyond 1983 if reinstatement of programs and projects does not become affordable.

Only approximately half of the effect of the capital spending reduction flows through to the income statement in the 1980-1983 period. The remainder would be realized through reduced amortization and depreciation in future years. While this adjustment is hypothetical in that it does not identify in specific terms what product programs are affected thereby, there is some reason to believe it may be attainable. See the section "Capital Program Modifications" for further discussion of this matter.

These adjustment can be viewed either as a contingency which can be acted upon should short-term events prove unfavorable (e.g., for 1980), or as deletions from and modifications to the present capital program which can be reinstated if short-term events prove favorable.

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Particularly noteworthy in Exhibit E are the peak cash needs during 1980-1983 for the Adjusted Second Base Case at 100% of revised volumes and at 95% of revised volumes--$2.3 billion and $3.1 billion, respectively.

Summary of Cash Needs

The Chrysler submission includes a contingency provision which totals about $250 million over the 1980-1983 period.

The Second Base Case at 100% of revised volume without capital program modifications and without consideration of the contingency provision indicates a peak cash need slightly in excess of $3.0 billion. The adjusted Second Base Case at 95% volume levels indicates peak cash needs could be approximately $3.0 billion, with a $1.0 billion capital spending cut back.

Essentially, the capital program modifications plus the contingency built into the Chrysler submission represent a zone of flexibility for meeting adversity. However, it should be noted that the automotive industry is highly subject to economic cycles and some contingency should be included in any financing plan of this nature. Additional contingency amounts might be realized through additional funding or alternatively through further product action modifications. However, at some point Chrysler's capital structure and capacity to pay debt service charges will limit the amount that it can borrow.

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III. DETAILED DISCUSSION

VARIABLE MARGIN IMPROVEMENT (VMI) PROGRAM

Chrysler has a very extensive program for improving variable margins per average car and truck sold (i.e., average unit revenue less average variable cost). Some actions are aimed at realizing variable cost reductions (e.g., improved purchasing and component redesign), some at enhancing basic revenues (e.g., increasing the proportion of higher priced cars and trucks), and some at increasing the value of the sale (e.g., by selling more options on the average). The variable margin improvement is expressed as a gain or loss in margin over a base period, which is the 1979 model year in Chrysler's October 17 submission. The program includes hundreds of individual actions involving virtually all activities in the organization--purchasing, manufacturing, engineering, product planning, marketing and others.

The Chrysler VMI program was reviewed to gain a general understanding of the program, underlying assumptions, past results, related trends and other pertinent matters. Based on this review, estimates were made to adjust the degree of attainment of certain elements of the VMI program.

The VMI program was incorporated in the revised base cases as follows:

1. The per unit VMI gains used by Chrysler in the October 17 submission were applied to the revised volumes used herein to establish a base level.

2. Changes based on more current information were incorporated in the First Base Case.

3. Changes based on the review of VMI assumptions were included in the Second Base Case in addition to the changes included in item 2.

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Several exhibits summarize the VMI data included in each Base Case:

Exhibit F--Shows the October 17 submission data applied to the revised volumes. Base variable margin is based on the 1979 model year car and truck average variable margin as estimated by Chrysler at the time the submission was prepared. The VMI data shows the 1980-1983 cumulative amounts of VMI gains added to base year variable margins at the October 17 submission rates per average car and truck.

Exhibit G--Shows the 1980-1983 cumulative VMI amounts at plan program rates from Exhibit F, the cumulative reduction from changes included in the First Base Case, and additional changes based on the review which are included in the Second Base Case.

Exhibit H--Shows the same estimates as Exhibit G, except on a year by year basis.

Exhibit I--Shows the percent of attainment by VMI action element used to compute the additional adjustment in the Second Base Case.

In all instances, the exhibit computations are based on the mix of cars and trucks as existed in Chrysler's October submission.

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FIXED COST REDUCTION PROGRAM

Chrysler has developed a program for reducing fixed costs, identified as "Management Profit Improvement Actions," in the following six areas:

	Annual Cost Reduction ($ millions)	
	1980	1981-1983
Personnel	$201.9	$204.2
Compensation	22.2	12.2
Facility closings	69.5	121.5
Operating expenses	91.6	91.6
Marketing	137.8	137.8
Other	(9.2)	(.5)
Total	$513.8	$566.8

Over 50 potential independent actions impacting the areas above were identified. Almost all organizational entities are anticipated to be impacted by these fixed cost reductions.

A brief review of each element of the planned reductions and a review of reported reductions through the third quarter of 1979 was completed.

Based upon the review and discussions with key personnel in each area, certain adjustments were made related to the attainability of the fixed cost reductions. The following details identify each modification made to the second base case:

	($ millions)			
	1980	1981	1982	1983
Increase in expenses--PERSONNEL	$3.8	$7.0	$7.0	$7.0

Costs were increased by $7 million each year for added health care costs for retirees. In 1980, savings of $3.2 million were recognized to correct an error in computing health care termination costs in the October 17 submission.

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COMPENSATION (No adjustment)

	($ millions) 1980	1981	1982	1983
Increase in expenses--FACILITY CLOSINGS	$14.0	$18.0	$18.0	$18.0

Projected savings to be achieved in closing Hamtramck and Outer Drive plants were reduced. The adjustments reflect 50% attainment in 1980 and 75% attainment in 1980-1983.

	($ millions) 1980	1981	1982	1983
Increase in expenses--OPERATING EXPENSE	$21.0	$51.0	$27.0	$20.0

These increases in operating expenses were included on the assumption that only 90% of the planned reductions would be achieved.

MARKETING

There were several individual elements of marketing fixed cost reductions in the October 17 submission which were revised, as follows:

1. Advertising expense was adjusted to reflect the change in sales volume The revised amount was based on an assumed $100 per unit in 1980, and $60 per unit for adjusted sales volumes above the 1980 level in 1981 and 1982, with no sales volume adjustments in 1983.

	($ millions) 1980	1981	1982	1983
Decrease in expenses	$14.4	$3.1	$12.6	$-0-

2. Sales incentive expense per unit was adjusted as in the case of advertising above, based on adjusted sales volumes in the years 1980, 1981 and 1982, with no adjustments in sales volume in 1983.

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	($ millions) 1980	1981	1982	1983
Decrease in expenses	$5.1	$2.4	$.8	$-0-

3. The policy of leasing fleet cars on a six-month basis and reselling in the wholesale market was changed to reflect outright sales. Discounts on new models to fleet purchasers were eliminated or reduced. Adjustments were made on the basis that the total projected savings of $45 million per year will not be achieved.

	($ millions) 1980	1981	1982	1983
Increase in expenses	$14.0	$14.0	$14.0	$14.0

4. The October 17 submission reflected an annual savings of $7 million per year in warehousing efficiency or manpower reductions. These manpower reductions had already been included in the Personnel Reduction Plan. An adjustment was made to eliminate this duplication.

	($ millions) 1980	1981	1982	1983
Increase in expenses	$7.0	$7.0	$7.0	$7.0

5. The proposed plan did not provide additional amounts for increased sales incentives. An adjustment to the October 17 submission was made to reflect increased expenses that may be necessary to stimulate sales volumes.

	($ millions) 1980	1981	1982	1983
Increase in expenses	$25.0	$25.0	$-0-	$-0-

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Marketing Fixed Cost Reduction Summary

	($ millions) 1980	1981	1982	1983
October 17 planned reduction	$137.8	$137.8	$137.8	$137.8
Decrease in expenses	19.5	5.5	13.4	-0-
Subtotal	157.3	143.3	151.2	137.8
Increase in expenses	46.0	46.0	21.0	21.0
Adjusted	$111.3	$ 97.3	$130.2	$116.8
Difference	$ 26.5	$ 40.5	$ 7.6	$ 21.0

FIXED COST REDUCTION PLAN AND ADJUSTMENT SUMMARY

	($ millions) 1980	1981	1982	1983
October 17 Plan	$513.8	$566.8	$566.8	$566.8
Adjustments--net:				
Personnel	(3.8)	(7.0)	(7.0)	(7.0)
Facility closings	(14.0)	(18.0)	(18.0)	(18.0)
Operating expenses	(21.0)	(51.0)	(27.0)	(20.0)
Marketing	(26.5)	(40.5)	(7.6)	(21.0)
Total Net Adjustments	(65.3)	(116.5)	(59.6)	(66.0)
Adjusted	$448.5	$450.3	$507.2	$500.8

Over the four-year period the original plan presented fixed cost reductions totaling $2,214.2 million. With the adjustments noted, the revised fixed cost reductions over the same four-year period total $1,906.8 million, or $307.4 million less over the four-year projection period.

NONRECOVERY OF ECONOMICS AND REGULATIONS

In recent years, price increases established by Chrysler have been less than fixed and variable cost increases which are partially attributable to inflation and compliance with Federal government regulations for safety,

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environmental controls and fuel economy. Chrysler is not in a position to be a price leader in the industry. Consequently, it must generally follow the competitors pricing response to inflation and other factors. This pricing "shortfall" was recognized by Chrysler in the October 17 plan as "Nonrecovery of Economics and Regulations."

Since the plan was submitted various changes have been identified, such as the 1980 model year being priced by Chrysler and its competitors. The identified adjustments have been included in the First Base Case. No additional adjustments were noted as appropriate for the Second Base Case. Exhibit J shows the cumulative amount included in the October 17 plan, and the adjustments identified for the First Base Case.

OTHER ADJUSTMENTS

Two additional types of adjustments were made to the October 17 submission in developing the First and Second Base Case figures:

- Decreases in expenses related to the UAW contract settlement.
- Refined computations of interest expense.

The UAW Contract settlement reached in the latter part of October provided labor cost terms that were favorable in comparison to the GM settlement pattern included in developing the October 17 plan. Estimated savings were developed for each of the years affected by the settlement (1979 through 1982) and were reflected in the financial projections for the First and Second Base Cases.

The computation of interest expenses in the First and Second Base Cases differs from that in the October 17 plan in two ways:

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- The October 17 plan interest computation assumed all funds required carried an interest obligation; the First and Second Base Cases recognized availability of certain funds (e.g. through asset dispositions).

- The financial model used to develop the First and Second Base Cases includes a more refined technique (simultaneous equations) for estimating future interest expense than the October 17 plan.

CAPITAL PROGRAM MODIFICATIONS

Major reasons for Chrysler's cash needs are capital expenditure programs and related program expenses Chrysler deems necessary to restore financial viability. These expenditures are aimed primarily at providing a full-line of competitive cars and trucks, improving efficiency and meeting various regulations. Chrysler's October 17 submission presented programs totaling $7,840 million during the 1980 through 1983 period. Of this total, $2,128 million is for a variety of nonproduct actions, primarily for improving manufacturing efficiency.

Car programs total $2,853 million, truck programs $908 million and related powertrain (engines and transaxles) programs $1,951 million--a product program total of $5,712 million.

Should unfavorable circumstances be prolonged for Chrysler, a program of this magnitude may be more than Chrysler can afford, despite the potential long-term desirability of the planned actions. Accordingly, the make-up of the expenditures was reviewed as to whether Chrysler might have the flexibility to modify program plans in order to reduce expenditures should such action become necessary.

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Product expenditures for the 1980 and 1981 model years were not considered candidates for modification. Expenditures are already substantially committed as 1981 models will be in production in about 10 months. Thus cancellations, delays or curtailments would likely yield limited expenditure reductions. Also, the primary product action is a new, fuel-efficient compact car which Chrysler believes is particularly important to maintaining competitive products.

Expenditures during the 1980-1983 period for 1986 and later model years offer the greatest flexibility, and total $168 million during the period. The more difficult decisions relate to the 1982 through 1985 model year programs which total $4,627 million. The following table summarizes program expenditures by model year ranges:

	1980-1983 Program Expenditures ($ Millions)		
	1980-1981 Model Years	1982-1985 Model Years	1986 - Beyond Model Years
Cars	$561	$2,266	$ 26
Trucks	77	784	47
Powertrains	279	1,577	95
TOTALS	$917	$4,627	$168

A variety of product program actions are candidates to conserve expenditures from the $4,627 million planned for 1982 through the 1985 model years should the need arise. Some of the major possibilities are:

(1) A new small pick-up/utility truck for 1983 model year

- Slide program entirely, or utility model only, one year
- Same action but two year delay
- Cancel program

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(2) An all new larger size (D body) car-basic model for 1984 model year; derivative models for 1985 model year:

- Delay program one year
- Reduce or eliminate powertrain changes
- Reduce distinctiveness of derivative models
- Reduce number of derivative models

(3) A new compact specialty (1983 model year) and renewed compact (1985 model year)

- Delay either or both one year
- Reduce degree of change from basic models
- Reduce extent of 1985 renewal

(4) Cancel, reduce extent of change or delay one or more of a variety of smaller programs, such as:

- 1982 Chrysler and New Yorker additions
- 1983 middle specialty renewal
- 1983 - 1984 subcompact renewals

(5) Reduce or delay powertrain programs related to above changes.

The above listing indicates that Chrysler has a degree of flexibility available if expenditure curtailment is needed. In addition to the above the potential exists for trimming from the $2,128 million of manufacturing and other program expenditures, as well as the $168 million for 1986 or later model years programs included in 1980 through 1983.

Based on the above considerations capital expenditure plan reductions of $1.0 billion during 1980 through 1983 do not appear to be unreasonable, if they should become necessary. Reductions of this amount could impact long-term profit margins due to reduced product appeal and decreased efficiency. For example, changes in capital programs of the nature noted above could have many ramifications on various aspects of Chrysler's activities and plans, as well as on its market performance. Accordingly, a specific combination of modifications which Chrysler might select, should such action become necessary, could not be specified without extensive

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evaluation being performed by the Company. The approximate impact of such changes during the 1980 through 1983 period is shown in Exhibit E. No attempt was made to project the potential impact of such actions in years subsequent to 1983.

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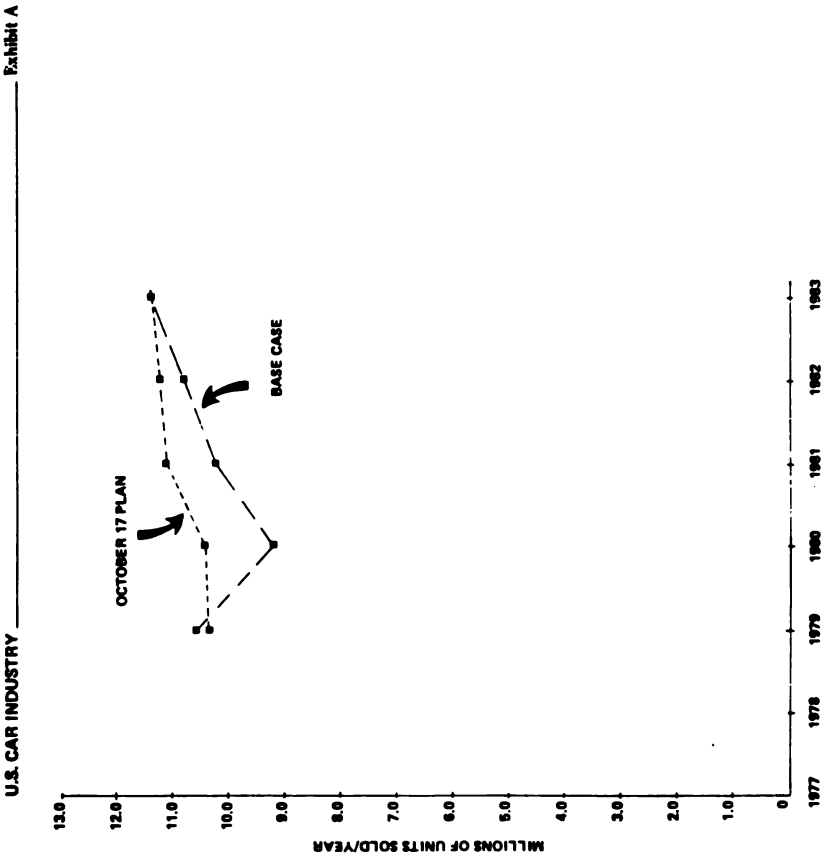

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EXHIBIT C

KEY MARKET ASSUMPTIONS

	1980	1981	1982	1983
CAR				
• U.S. Car Industry Volume		(Millions of units)		
October 17 Plan	10.5	11.1	11.2	11.4
First and Second Base Cases	9.3*	10.3*	10.8*	11.4
• Chrysler Penetration of U.S. Car Industry		(Share of market %)		
October 17 Plan	10.2%	11.1%	11.6%	11.9%
First and Second Base Cases	10.5	11.1	11.6	11.9
TRUCK				
• U.S. Truck Industry Volume		(Millions of units)		
October 17 Plan	3.4	3.9	3.7	4.0
First and Second Base Cases	3.1**	3.6**	3.7	4.0
• Chrysler Penetration of U.S. Truck Industry		(Share of market %)		
October 17 Plan	10.9%	11.4%	11.9%	12.2%
First and Second Base Cases	10.9	11.4	11.9	12.2
CHRYSLER UNITS (TOTAL CAR AND TRUCK FOR NORTH AMERICA)		(Millions of units)		
October 17 Plan	1.65	1.85	2.01	2.12
First and Second Base Cases	1.51	1.75	1.96	2.12

* Reflects updated Chase Auto outlook

** Reflects updated DRI truck outlook

SENSITIVITY CASES

Chrysler Units		(Millions of units)		
First and Second Base Case	1.51	1.75	1.96	2.12
95% Volume	1.43	1.66	1.86	2.01
90% Volume	1.36	1.57	1.76	1.91
Share of U.S. Car Market if Volume Adjustment Is Due Only to Lower Chrysler Market Penetration				
First and Second Base Case	10.5%	11.1%	11.6%	11.9%
95% Volume	10.0	10.6	11.0	11.3
90% Volume	9.5	10.0	10.4	10.7
Industry Volume if Volume Adjustment Is Due Only to Lower Industry Volume		(Millions of units)		
First and Second Base Case	9.3	10.3	10.8	11.4
95% Volume	8.8	9.8	10.3	10.9
90% Volume	8.4	9.3	9.7	10.3

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EXHIBIT D

COMPARISON OF OCTOBER 17 PLAN WITH BASE CASES INCOME AND FUNDING REQUIREMENTS

	($ Millions)			
	1980	1981	1982	1983
NET INCOME (LOSS)				
October 17 Plan	$ (482)	$ 393	$ 516	$ 610
First Base Case	(538)	265	390	531
95% Volume	(665)	85	149	242
90% Volume	(792)	(94)	(91)	(47)
Second Base Case	(659)	36	145	206
95% Volume	(783)	(138)	(87)	(72)
90% Volume	(907)	(313)	(320)	(350)
FUNDING REQUIREMENTS				
October 17 Plan	$1,554	$1,915	$2,116	$2,113
First Base Case	1,472	1,959	2,266	2,342
95% Volume	1,571	2,230	2,773	3,133
90% Volume	1,669	2,502	3,280	3,923
Second Base Case	1,593	2,308	2,860	3,261
95% Volume	1,689	2,572	3,351	4,025
90% Volume	1,784	2,836	3,843	4,789

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EXHIBIT E

PROJECTED IMPACT OF $1.0 BILLION CUTBACK IN CAPITAL SPENDING

	($ Millions) 1980	1981	1982	1983
• ADJUSTED SECOND BASE CASE ASSUMPTIONS				
Reduction in Capital Spending	$ -0-	$ 300	$ 350	$ 350
Mix of tooling, facilities and equipment and other Capital Spending in cutback:	Same as for October 17 Plan; specific program detail not identified			
• NET INCOME (LOSS)				
Second Base Case	$ (659)	$ 36	$ 145	$ 206
Adjusted Second Base Case	(659)	173	318	356
95% Volume	(783)	(1)	86	78
90% Volume	(907)	(176)	(147)	(199)
• CUMULATIVE FUNDING REQUIREMENTS				
Second Base Case	$1,593	$2,308	$2,860	$3,261
Adjusted Second Base Case	1,593	1,994	2,196	2,309
95% Volume	1,689	2,258	2,687	3,073
90% Volume	1,784	2,522	3,179	3,837

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EXHIBIT F

VARIABLE MARGIN - OCTOBER 17 SUBMISSION AVERAGE UNIT RATES AT REVISED VOLUMES (1980-1983 CUMULATIVE)

	Car	Truck	Total
		($ Millions)	
Variable margin improvemant program	$2,909.0	$ 468.4	$ 3,377.4
1979 model year base	6,651.4	3,036.0	9,687.4
Variable margin	$9,560.4	$3,504.4	$13,064.8
		(Percent of total)	
Variable margin improvement program	30.4%	13.4%	25.9%
1979 model year base	69.6	86.6	74.1
Variable margin	100.0%	100.0%	100.0%

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EXHIBIT G

VMI ADJUSTMENTS
(1980-83 Cumulative)

	($ millions)			Percent		
	Car	Truck	Total	Car	Truck	Total
FIRST BASE CASE						
At October 17 Plan Average Unit Rates	$2,909.0	$468.4	$3,377.4	100.0%	100.0%	100.0%
First Base Case adjustments	(97.2)	(118.2)	(215.4)	(3.3)	(25.2)	(6.4)
First Base Case	2,811.8	350.2	3,162.0	96.7	74.8	93.6
SECOND BASE CASE						
Second Base Case additional adjustments	(359.9)	(91.8)	(451.7)	(12.4)	(19.6)	(13.4)
Second Base Case	$2,451.9	$258.4	$2,710.3	84.3%	55.2%	80.2%

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EXHIBIT H

ANNUAL VMI INCLUDED IN ESTIMATES

	($ Millions)				
	1980	1981	1982	1983	Total 1980-1983
At October 17 Plan Average Unit Rates	$385.3	$759.5	$1,008.9	$1,223.7	$3,377.4
Adjustments	(27.4)	(55.2)	(62.3)	(70.5)	(215.4)
First Base Case	357.9	704.3	946.6	1,153.2	3,162.0
Additional Adjustments	(48.7)	(86.3)	(132.7)	(184.0)	(451.7)
Second Base Case	$309.2	$618.0	$ 813.9	$ 969.2	$2,710.3

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EXHIBIT I

ADJUSTMENTS TO WMI ATTAINMENT

	Estimated Attainment Percentage
New product programs	100%
New and discontinued options and equipment changes	65%
Component insourcing	100%
Design cost reductions	85%
Warranty improvements	115%
Market demand changes	65% - Car 85% - Truck
Purchasing programs	65%
Manufacturing	100% - 1980 75% - Thereafter

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EXHIBIT J

NONRECOVERY ECONOMICS AND REGULATIONS

(1980-1983 Cumulative)

	($ Millions)		
	Car	Truck	Total
October 17 Plan	$(550.1)	$(110.6)	$(660.7)
First Base Case adjustments	(70.3)	30.4	(39.9)
Adjusted total	$(620.4)	$ (80.2)	$(700.6)
Second Base Case additional adjustments	$ -0-	$ -0-	$ -0-
Adjusted total	$(620.4)	$ (80.2)	$(700.6)

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MORE THAN $3 BILLION TO SURVIVE

The CHAIRMAN. Would you have the chart put up, the last chart that you had, the one on accumulative funds that shows the first base case, second base case, and adjusted base case, too? Last September Chrysler said it needed $2.1 billion to survive. Now we put the amount at $3 billion. And even your own projections here on this chart showed that the amount could easily be close to $4 billion.

In fact, as I look at that, there are only two circumstances you have on that chart in which in 1983 the requirement will be more than $3 billion. And in some of these instances where you have 90 percent of base volume in 1982 and 1983, the requirements will be over $3 billion.

How can Congress have any confidence that we have the true financial picture? How can we have any confidence that $3 billion will do the job in view of the strong possibility here that we are going to have to go more than $3 billion?

Secretary MILLER. We present these figures to you, Mr. Chairman, completely. We hide none of them. You should be aware, as we are, that there are many variables in trying to outline a plan for an operating company that operates in the dynamics of the economy and of the world economy.

We have tried to look at a series of adjustments in base case 1 and base case 2 that were more conservative, that assumed less achievement in cost reduction, that assume less achievement in sales goal, and did all of those things. We came back with those two. We saw that in either case considerably more money was required than Chrysler's peak requirement.

So we then went to work on the plan and developed, in our view, the judgment that expenditures, unidentified in these 2 years, totaling $1 billion for capital improvements out of $13.6 billion in this period of time, could be avoided. Those expenditures related to variations of models that are not essential, in our view, to the—from all of this analysis which we share with you, we came to what would seem to be a reasonable operating base. And it is our judgment that a 95 percent achievement with the opportunity to have further adjustments in scaling out of expenditures in the 4 years, means that that is a reasonable prospect.

We have not looked at this through rose-colored glasses. We have assumed less than achievement in Chrysler's outlook for cost reductions, both variable and fixed. We have assumed less achievement in sales, and we have assumed that there was the flexibility to forego certain capital investments which cost cash that would allow the company to meet its major objectives.

The CHAIRMAN. You say "not rose-colored glasses," yet you do make the assumption—perhaps I am wrong, and correct me if I am wrong—that in 100 percent base volume they have to increase their market penetration about 20 percent from roughly 10 percent to 12 percent. Now, this year, I understand, it is about 9 percent at the present time. That would be, it seems to me, a very optimistic assumption, and you have no—even your 90 percent base volume gives them a penetration above what they have at the present time and above the 10 percent they had last year.

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And in addition, you are making assumptions as to the stability of the automobile market overall. I presume that you are assuming it would be about the same as it has been on the average over the last 2 or 3 years. Is that correct?

Secretary MILLER. We have assumed less sales than in recent years. As we indicated, in order to arrive at these cases, we first scaled back the market. And when you scale back the market, no matter what percent you take of Chrysler's penetration, you scale back its production. So, we have done that, and that is why——

The CHAIRMAN. You didn't assume the penetration would remain the same as it is now or decline?

LIMITED CAPACITY TO PRODUCE SMALL CARS

Secretary MILLER. On market, we think the analysis is quite reasonable. Let me remind you that 14 percent of the automobiles now on the road are Chryslers. The reason their market share is low at the moment is because of their limited capacity to produce cars that are in high demand. They could sell much more today if they could produce them. They are limited in Omni and Horizon to 300,000 automobiles because that is all——

The CHAIRMAN. When we talked to Mr. Iacocca, he said they don't make any money on Omni and Horizon. They could triple their volume and the net profit would not accrue. Is that wrong?

Secretary MILLER. As we go through these timeframes and make the cost reductions and improvements and fit the company to its sales volume and take out the overhead costs and variable costs, they do become profitable. So that he is correct in saying today that as they have gone along and not had enough volume to absorb their overhead or their fixed costs of development costs, they are not profitable.

The whole purpose of this plan, of course, is to give Chrysler the productive capacity to produce cars that are in demand and which, in volume, should produce a profit.

The CHAIRMAN. It doesn't show substantial increase in Omnis and Horizons. It is in the larger car.

Secretary MILLER. They move to the K-body group starting a year from now. And when they go to the front-end drive on the new design, they put very heavy weight, and I think realistically so, on those cars. As you know, Chrysler is already a larger percent of its market, of its sales today, are in small cars than the other U.S. producers.

So, its market sense has been bad in the past, but it is now moving toward the right direction. The market in the future we have assumed to be more pessimistic than projections that were made last summer. But we believe that projections that have been assumed here are realistic. We believe that Americans will continue to need automobiles, and that they will favor shifting, because of fuel costs and availability, toward fuel-efficient automobiles. This market has to grow, and the whole industry has to shift here and we have to speed up the process of replacing less fuel-efficient automobiles.

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The CHAIRMAN. Will you show—I know it is hard to calculate it now—how much they would require if their auto penetration remained at 9 or 10 percent?

[Response to question can be found in Part I, p. 497.]

Secretary MILLER. Yes. We can do that.

SETTLEMENT WITH UAW "OUTRAGEOUS"

The CHAIRMAN. This past week, Alfred Kahn raised the question as to whether the settlement with UAW, in spite of the deferral, was within the guidelines. In fact, he charged it was not within the guidelines, it was outrageous. Now he has toned down that statement to some extent. But nevertheless, the proposed contract calls for more than 30 percent wage increases over 3 years, not including fringe benefits. If UAW can get that kind of contract from a very sick corporation, demands from employees of healthy corporations will be just as great, if not greater.

Also, if this contract is approved and set in place, it would seem to me that it would undermine the strength and value, whatever is left, in wage and price guidelines. Do you agree that the violations of the wage guidelines of this contract and the contract agreements of the UAW, GM and Ford make the wage guidelines, if not meaningless, very impotent?

Secretary MILLER. The wage/price standards, I believe, have been effective in moderating wage and price increases in the past year. If we look over the whole economy, we have been very fortunate indeed to have a performance that has retained considerable restraint on wage increases. There have been some contracts not in compliance. None of us condone, or none of us approve, contracts not in compliance. The responsibility of Mr. Kahn is to make determinations. He made the preliminary finding of COWPS, that the contract was not in compliance, and he so notified the company. They have 10 days to respond and, in the process, they will either satisfy COWPS that there is compliance, or they will be unable to do so. And COWPS will proceed accordingly.

I don't believe that that should change, nor does Mr. Kahn believe that should change, the importance of proceeding with this legislation. Because, in this legislation, we are requiring that there be further concessions, contributions from all of those who are interested parties, including the employees, including the UAW.

The CHAIRMAN. We should go ahead as a Congress and approve a $1.5 billion guarantee in the face, in the knowledge of being advised by the principal inflation fighter that it is inflationary and that it is a violation of the guidelines? We would have to vote on that, I presume, in the next 2 or 3 weeks, if this aid package is to come in a timely way.

Secretary MILLER. I am hopeful that before the COWPS is through with their process, that they will have made a contribution to make sure that there is moderation of wage demands in this company as well as any company. This company, as far as the voluntary wage/price program, should be held just as accountable as any other company.

The CHAIRMAN. These are among the highest paid workers in the country. Are they not?

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Secretary MILLER. Yes, but so are many other industries, yes. They are skilled workers, Mr. Chairman.

The CHAIRMAN. I realize that.

My time is about up, and we have very little time, and there are a number of Senators who want to inquire of you.

REDUCTION OF CAPITAL INVESTMENTS

Senator GARN. In response to Chairman Proxmire, you mentioned that $1 billion was a reasonable reduction for Chrysler to make in capital investments. You didn't say where this $1 billion would come from. I know that they have projected a new luxury model and that it is supposed to have greater profit margins than the Omni and Horizon. Where would they be removing that $1 billion from?

Secretary MILLER. Let me ask my Assistant Secretary, Roger Altman, to give you the details of that.

Mr. ALTMAN. The company is projecting to spend $7.8 billion through 1983, total capital spending. Approximately $2.2 billion of that is for new product development; an additional amount is spending to improve manufacturing efficiency. It is simply our judgment that under the circumstances the company can forego $1 billion of those amounts without compromising its overall strategy of remaining a full-line domestic car producer and without compromising its overall prospects for returning to commercial viability and self-financing at the end of the 1983 period.

We have not chosen to specify to Chrysler exactly which areas of that spending they should cut, but rather that $1 billion out of it ought to be reduced.

Senator GARN. But one of the criticisms I have heard is inefficient and old plants, that Chrysler has older and less efficient plants than the other manufacturers. Are we talking about taking out plant modernization which would improve efficiency?

Mr. ALTMAN. There is no question that if these are expenditures which are well conceived, as most of them appear to us to be, that to spend somewhat less will reduce somewhat the company's targets on improved efficiency. But it is a matter of what amount can be financed and whether or not the amount that can be financed is sufficient to accomplish most of the company's business objectives.

Our judgment is that $3 billion is a maximum prudent amount to be financed over this period. It can accomplish the company's basic strategy as well as our objective, which is restoration of its viability.

The answer to your question, technically, is "Yes," but it is a small "Yes" in the sense that we don't think it would involve drastic negatives for the company's efficiency. One of the appendices to Secretary Miller's testimony, the third appendix, suggests the series of possibilities for reduction of where this $1 billion could be reduced. They are part of the record. I would simply point out that we did not and will not specify which of these should be adopted by the company, but there clearly are a series of opportunities for doing it.

Look on pages 19 and 20. There is more than $1 billion of opportunities. The question is, between now and the time these

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would be spent. There would be the opportunity to assess which ones, for example, the new small pickup utility truck planned for 1983. It would be possible to slide the program entirely or to slide the utility model only by 1 year, or to do it by 2 years, or to cancel it.

On the next page, there is a new, larger size D-body car, where it could be delayed for 1 year or there could be changes. There are a series of things which are more than 1 billion, none of which appear—all of which appear to be reasonable options, none of which would undercut the possibility of the company to be self-financing.

Senator GARN. I understand. But it always troubles me when we talk about $1 billion. It is easy to round things off in billions. Certainly, when we deal with Congress, we are used to doing that without any specificity. I am being told at the same time one of the major things Chrysler needs to do is to modernize their plants so they can be more efficient, increase their profitability. They need all this money.

And then I hear they can save $1 billion here, but then there isn't much detail. Obviously there are some options. It relates back to what I heard so much on New York. We heard testimony for a couple of years, and they always had options. But it is amazing how most of those options were never realized. That is why I ask the question for more specific information. That has been one of my concerns so far in the long letter which Senator Proxmire and I wrote to you.

[Response to letters from Senator Proxmire and Senator Garn dated Nov. 7 and Nov. 13 can be found in Part I, pp. 551 and 553.]

I realize that you answered every question that you could. There is a lot left unanswered, and that troubles me. A little bit too much uncertainty here when we are talking about $1.5 billion of the taxpayers' money.

I suppose what troubles me most in the questions I asked are the assumptions that are being made and the basis on which these assumptions are made by Chrysler. If we do pour $1.5 billion in or at least in guarantees, and it doesn't do the job, just like New York, then we keep coming back for another piece and decide: Well, Chrysler will stay a company as long as we have to keep supporting them.

Let me not pursue that one.

Secretary MILLER. Let me make one comment. I think the nature of dynamic enterprise—I know it is hard for those who have to react to see the merit in the lack of specificity. But any company I have ever managed, you have a 5-year capital plan. It is a planning document. And you can make your specific assumptions 4 years from now, 3 and 4 years from now, but it would be unwise to lock those up and say, this is precisely, now, what we are going to do, because by having six options, all of which would adjust to your cash, allows you to decide as you go along which product is doing better, which one the market needs, which one you should curtail, which one is showing more margin.

If you try to decide that today, you will probably make the wrong choice. What we try to do is say, well, as the actual decisions to place a purchase order for equipment or tooling come, it is up to

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the management and up to us, as the monitors of this company, to make sure we are making these choices based on—every company I know, if your product happens to boom, you want to spend more on that and less on something else.

I think this is that kind of a case. If we try to be specific and say, we won't do a light truck in that year, that may be the best product they have in that year.

Senator GARN. I understand all that. I don't understand how, in planning and projections, we somehow pick numbers out of the air.

Secretary MILLER. That's right. We should try to strive to save more than a billion. The billion would seem realistic. And you're correct, a good management would see to do more.

PROJECTIONS ON MARKET SHARES

Senator GARN. Let me go on to some of the other assumptions. It seems to me one of the cores of this whole thing is Chrysler's market share. They plan a return to 11.9 percent by 1983 and return on sales to 4 percent. Looking at the past, they have only made 4 percent 4 or 5 years out of the last 25.

So how accurate are Chrysler's past projections on market share and on their profitability, profit or return on sales? In other words, if we can't be specific—and I understand some of the reasons we can't—then we can try to judge the past, to look at the future. They are making these assumptions. And you would know what assumptions they have made in the past and how accurate they have been.

Secretary MILLER. We have, as you know, made this analysis on the basis of assuming that the market would be smaller than Chrysler projected, and that is in some of their assumptions, that their own sales would even be smaller. And that is how we built up this matrix.

This matrix and the outlook for volume in the 10.9- or 11-percent range, as distinguished from the levels that they had indicated, seemed to us—the October plan indicated 12.2 percent in 1983 of the market. We have assumed in the level of the 95-percent adjusted case 2, 10.9. We have marked it down quite a bit.

Again, our judgment is that in considering the limited productive capacity, the shift toward fuel efficient cars, Chrysler's expenses in the past, the limitation they have had on meeting their market opportunity for lack of production, that that was a reasonable objective. We cannot prove it to you.

But it was scaled back from their estimate on the same kind of considerations you were talking about, just our believing we should be more conservative.

Senator GARN. Is it possible for you to supply the committee with historical data on projections they have made in the past and what has actually taken place?

Secretary MILLER. I think Chrysler could. I don't know that we have their past projections.

[The following was subsequently submitted for the record:]

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CHRYSLER CORPORATION

COMPARISON OF PROJECTIONS TO ACTUAL 1975 - 1978*

Year	Date of Projections**	U.S. Car Industry*** (Millions of Units) Projection	Actual	Chrysler's Share Projection	Actual	Net Earnings ($ Millions) Projection	Actual
1975	12/74	5.6 - 8.0	7.1	16.0%	14.9%	$(75) - $100	$(260)****
1976	8/75	7.0 - 9.0	8.7	16.5%	15.9%	$(55) - $316	$423
1977	3/77	8.4 - 9.4	9.2	16.0%	14.3%	$190 - $368	$163
1978	3/77	8.5 - 9.5	9.4	16.5%	13.3%	$204 - $379	$(205)
1979	3/78	8.8 - 9.5	n.a.	15.5%	n a.	$109 - $278	n.a.

* Information submitted by Chrysler to Treasury on November 16, 1979.

** These projections were prepared by Chrysler for financial institutions that have relationships with the company.

*** Excludes imports.

**** Includes loss on disposal of Airtemp Division of $55 million that was not included in the projection.

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Senator GARN. One followup question. If Chrysler's increase in market share comes at the expense of other domestic manufacturers, aren't we then going to be put in a position of the Federal Government having some responsibility, at least by precedent, to help them; if it comes at the expense of Ford, for example?

Secretary MILLER. Senator Garn and Mr. Chairman, there are only 11 industrial companies in the top 500 who are triple-A-rated companies. General Motors and Ford are both triple-A-rated companies, 2 out of 11 in the top 500 companies.

I don't see the case or the expectation that either of those companies need help. I do see, if we eliminate one supplier, we have concentration, which is against the competitive environment we need. And I see a permanent transfer of part of the market to foreign suppliers and permanent transfer of some jobs abroad.

I do not believe that is in our public interest.

Senator GARN. I understand that. I just hope we are not going to be interfering with the competitive process. I would hate to be in business, any business, with a competitor, and find that the Federal Government guarantees their loans to keep them in business, and it is at my expense, and the Government was the competitor that made the difference rather than the normal market forces.

Secretary MILLER. I make the comparison to Lockheed. The Lockheed loan guarantee, whatever may be our individual evaluations of it, certainly was perceived to aid Lockheed in connection with the L-1011. The L-1011 might be considered, then, as it would be better to shut it down and let McDonnell-Douglas have the market with the DC-10. I think our Nation is better off today to have had the L-1011 retained as a competitor airplane, both in terms of our domestic needs and our opportunity to sell that plane in world markets and gain revenues for the United States.

I think it would have been a terrible mistake to have lost the L-1011 and be down to one choice in that market category for wide-bodied jets of that class.

Senator GARN. My time is up.

I think the Lockheed situation is not quite the same, because they had guaranteed orders if they had stayed in business, and Chrysler certainly has no guarantee that they will be selling a certain number of cars.

Thank you.

Secretary MILLER. On the L-1011 there was no guarantees. It was a commercial project.

Senator STEVENSON. Mr. Secretary, what assumptions do your figures make, first of all, for inflation? I am referring to the 95-percent base volume, adjusted base case 2.

Mr. MAY. I am with Ernst & Whinney and was involved with the project with the Treasury Department.

The assumptions we made with respect to inflation were assumptions that were utilized by the company. They amounted to 6 percent in revenues and 8 percent in cost adjustments.

Senator STEVENSON. Six percent in revenues?

Mr. MAY. Six percent overall average price increase, in revenues applicable to their products.

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Senator STEVENSON. I still don't understand. The assumptions with respect to inflation included what effect of inflation on the company's costs, its operating costs?

Mr. MAY. On its operating costs, they utilized the actual increases per the contract.

Senator STEVENSON. I am talking about in the future. Those figures go through 1983. What is the annual rate of inflation that is assumed in those figures?

Mr. MAY. The hourly labor increases would have been in accordance with the UAW settlement. The increases for other expenses would have been at a rate of 8 percent.

Senator STEVENSON. Eight percent per annum?

Mr. MAY. Yes.

Senator STEVENSON. What assumptions with respect to the size of the entire market? I have heard some comment about Chrysler's share of the market. What about the market? What assumptions with respect to recession?

Secretary MILLER. We have assumed, Senator Stevenson, that the original estimate of the market for 1980 was 10.5 million automobiles, 10.5, and we reduced that to 9.3 million.

In 1981, it was originally assumed by Chrysler that 11.1 million would be sold. We reduced that to 10.3. So we cut back the assumption on the size of the market.

And the market size for the following 2 years were 10.8 in 1982 and 11.4 in 1983, showing not enormous changes. I will write those down, if it will be helpful to you.

Senator STEVENSON. I think it would be helpful to us. The numbers mean very little to me. If you could also give me some underlying assumptions.

Secretary MILLER. I can show you what the market has been the last few years.

Senator STEVENSON. That would be helpful. The underlying assumptions with respect to real——

Secretary MILLER. Let's get a little graph and send it up to all of the members that shows the market for automobiles in the last 5 years and what the projections here of the——

Senator STEVENSON. Sounds like optimistic assumptions, the jump from 1982 to 1983. But I think it would help us also to have the assumptions which underlie those assumptions; that is to say, something with respect to world growth patterns.

Secretary MILLER. We have that. We have a background analysis as to what the basis would be.

[The following was subsequently submitted for the record:]

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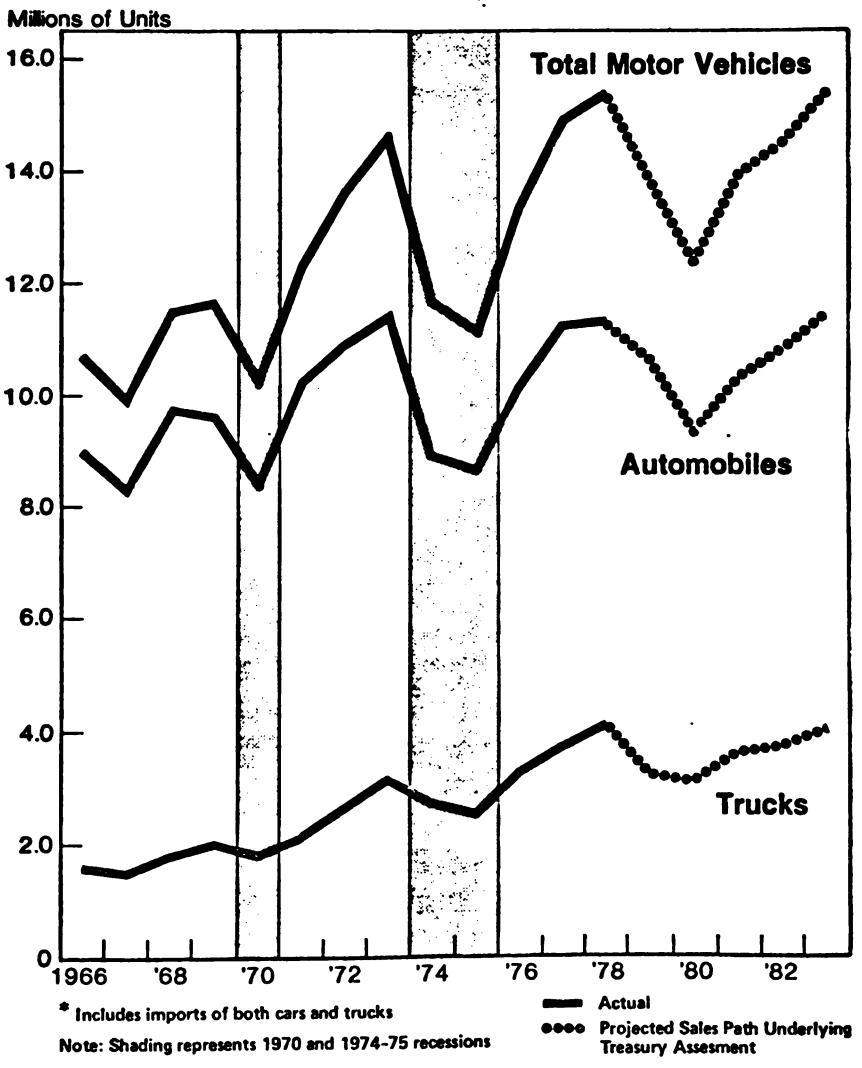
Total Annual Retail Sales of Motor Vehicles in the United States*



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Chrysler Corporation

Cumulative Funds Required Under Alternate Assumptions
Treasury Adjusted Base Case 2

Part I: Net Income (Loss)

Adjustments	Annual Net Income ($ Million) 1980	1981	1982	1983
(1) Auto and truck shares constant at 1979 levels of 10.2% and 10.5%	(730)	(221)	(362)	(520)
(2) Auto share constant at 9%	(889)	(287)	(389)	(608)
(3) Auto share constant at 10%	(736)	(60)	(104)	(256)
(4) Auto share constant at 9%, auto market at 9 million units	(933)	(499)	(781)	(1210)
(5) Auto share constant at 9%, auto market at 10 million units; or share constant at 10%, market at 9 million units	(785)	(312)	(542)	(928)
(6) Auto share constant at 10%, auto market at 10 million units	(620)	(105)	(276)	(614)

Part II: Funds Required

	Cumulative Funds Required ($ Million) 1980	1981	1982	1983
(1) Auto and truck shares constant at 1979 levels of 10.2% and 10.5%	1646	2266	2935	3742
(2) Auto share constant at 9%	1763	2583	3463	4505
(3) Auto share constant at 10%	1649	2252	2847	3545
(4) Auto share constant at 9%, auto market at 10 million units	1795	2791	4036	5648
(5) Auto share constant at 9%, auto market at 10 million units; or, alternately, share at 10%, market at 9 million units	1686	2496	3504	4836
(6) Auto share constant at 10%, auto market at 10 million units	1564	2169	2912	3935

* Note: All projections are overstated to some degree. While the analysis adjusts variable costs in relation to lower revenue, it keeps fixed costs constant. Yet, even fixed costs are subject to control and could be reduced if sales are projected to remain low.

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Senator STEVENSON. Do these figures assume that through 1983 there will be no fuel supply interruptions that will affect the market?

WEAK MARKET NEXT 2 YEARS

Secretary MILLER. We are assuming a weak market in the next 2 years. The figures I quoted to you are a very substantial decline in the market as a result of the recent energy supply price increases. We have not assumed in the 4-year period any boycott or major interruption. We have assumed that there would be continued market need to move to fuel efficient cars, that Americans would need even more rapidly in the face of increasing energy to shift from higher fuel usage automobiles to more efficient ones; and that that would be the basis for there being a production need over this period of time, even if increases in gasoline prices continued.

In fact, the more gasoline prices go up, the more there would be an acceleration of the trend to produce smaller cars.

Senator STEVENSON. I don't know how you make correct inferences from those assumptions.

Secretary MILLER. We have not assumed a boycott or interruption of supply.

Senator STEVENSON. I understand that. But I think one of the phenomena that is quite possible, with declining economic conditions, both with respect to GNP and continued price rises, including price rises for fuel, would be the disposition of many people to hang onto their cars and pay for transportation by not buying new cars.

Secretary MILLER. What we experienced this year, when the oil price increase in the second quarter skyrocketed, there came to be a glut of larger automobiles on the market and a shortage of the smaller automobiles and 6 months delay in delivery and all that sort of thing. So one didn't find a shrinkage of demand. One found a shrinkage of the match of the product to the demand.

Senator STEVENSON. Chrysler has indicated to us that its own assumptions in its plan included so-called uplining of automobiles by its customers from the small automobiles to the large energy inefficient automobiles which provide higher profits for Chrysler.

Secretary MILLER. We have asked the company to do a new study on what would be the impact of downsizing the whole line. They will not have that ready, unfortunately, until mid-December. But we have assumed, and we should all assume, that when they talk about the more luxury models of the future, they are still talking about small cars and fuel efficient cars that are just appointed better and have more creature comforts.

We are still going to see a trend in their new models toward a complete changeover to front-wheel drive, to smaller size, smaller weight.

Senator STEVENSON. When did you say the markup was?

The CHAIRMAN. The markup is a week from Monday.

Senator STEVENSON. The study won't be ready to——

Secretary MILLER. We tried to accelerate this. We thought this was an option we could look at. We will continue to look at it, even if the legislation is approved, because we want to maximize the

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potential of this company to be self-financing and minimize the Federal commitment all we can.

The CHAIRMAN. I'm sorry. It is a week from Thursday, November 29.

Senator STEVENSON. I hope you can do everything you can to expedite that.

Secretary MILLER. We will try to.

Senator STEVENSON. For a more philosophic question: This plan is presented as though the only alternative to a bailout were financial chaos. There are alternative uses for $1.5 billion. Other countries are developing alternatives. The British have made support for geriatric industries a national habit and have dragged their economy into a spiral of decline.

The Japanese Government has been extensively involved in the private sector. I think we are all familiar with the decades of direct subsidies and import protection which the Japanese have offered their steel, chemical, automobile, and electronics industries. But they also take quiet steps to wean labor and capital away from declining industries and into the future.

ALTERNATIVE FORMS OF ASSISTANCE

So my question is whether the Treasury has considered alternative forms of assistance, that is to say, assistance that will help this and perhaps other companies adjust to the future instead of resisting it. Have you considered assistance that would help the marketplace and help establish procedures, including those for the reorganization of failing businesses, to transfer Chrysler's assets and its employees to viable enterprises and the manufacture of products for which there is a market?

You are going to have great difficulty convincing me that our highest economic priority should be the subsidization of excess capacity for the production of automobiles.

I feel more strongly about it because of a coincidence. Last week the administration came forward with its long awaited program for industrial innovation. That program, the purpose of which is to revitalize American industry oriented to the future, had $55 million in it.

This week the administration comes to the Congress with a program that has $1½ billion in it, and not for innovation, but for a failing, noncompetitive company and for continued excess capacity for the production of automobiles.

I would like to assist adjustment, not resist it. Have you considered alternative means that could help this and other companies adapt to the future as other countries do quite successfully and at our expense?

Secretary MILLER. I think we need to separate in our thinking programs to support innovation, which I agree should be developed and expanded, which involve outlay of Federal revenues and a financial assistance program which is intended to be successful and costs no revenues.

Even though the number that we are talking about is $1½ billion, it is not $1½ billion in outflow. It is the guarantee of $1½ billion of loans which would be made with every expectation they

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would be repaid and that the Government will have put out no outlays in this program.

You are correct that we could look at alternate ways to transform Chrysler facilities into producing products that may be perceived to be in need in the future.

From the House side an amendment was offered that asks us to look at the possibility of using part of these financings for public transit products made in Chrysler facilities, even if those facilities go to another owner.

The difficulty with all of these kinds of transformations of large corporations is that in order to transform, you need to shut down, retool, and transfer. And in the process, there is this social cost. There is the budget cost. There is the rehabilitation cost. And it turns out to exceed by far the risk of making this company viable and what we believe to be a shift in the future, right direction in the future by moving Chrysler to produce the fuel efficient cars that this Nation needs.

I would hate to see us forego the opportunity to use this organization, this distribution network, this service network to contribute to part of the national need for moving to fuel-efficient cars.

The other transformations are very long in time. The product design, its engineering, its tooling, its marketing mean major delays. And I am afraid the alternate costs would be far exceeding the risks we are taking here.

Senator STEVENSON. This is temporary and it may be a giant albatross financed by the American public.

Secretary MILLER. Our purpose would be to see that the company comes through this period as self-financing and able to continue on its own.

The CHAIRMAN. Senator Tower.

Senator TOWER. Mr. Secretary, your statement seems to indicate that you have ignored the argument that many of Chrysler's problems are caused, at least in part by regulatory requirements.

Is it correct or incorrect that costs associated with legislative and regulatory requirements fall more heavily on Chrysler than on General Motors and Ford?

HIGH REGULATORY COSTS ON CHRYSLER

Secretary MILLER. Senator Tower, the regulatory costs, the costs of making adjustments must by logic fall most heavily on those who produce the smallest number of units to make a shift.

I think that is true.

Chrysler has been unable, to our satisfaction, to quantify what these costs may be. We have not been able to address that issue. It may be an underlying issue. But we do not know how to address it in the financing plan because there seems to be no authority or mechanism that we can get our hands on or support for the idea that there can be a change in the public purposes of the regulations for safety and environment that are in being.

So we are now faced with a time frame in which Chrylser needs most of all to be in compliance with those regulations. And these resources are intended to accomplish that and move it into the future where that burden will have been diluted by that transition.

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Senator TOWER. By the same token, the regulatory requirements would fall more heavily on Ford than on General Motors.

Secretary MILLER. That's correct.

Senator TOWER. Does that suggest that perhaps we should examine the regulatory climate in which these companies have to function?

Secretary MILLER. I think that is very justified.

Senator TOWER. If Chrysler avoids a bankruptcy proceeding, isn't it likely that there would be a substantial reduction in its work force in the next few years?

As we understand your statement, it indicates that Chrysler has lost 18,000 employees this year alone.

Secretary MILLER. Senator Tower, it is my judgment that if they don't get financial assistance, there won't be an opportunity to scale them down.

I think the whole structure of the company would require—they would be short of cash and undoubtedly, there would have to be a reorganization in bankruptcy.

The trouble with that is as soon as that event takes place is that their own consumer franchise begins to erode.

At that point, it is very hard to predict whether Americans would be willing to continue to buy their product in adequate quantities with uncertainty as to the future of spare part service. And analysis of the impact of bankruptcy has been made and submitted to the committee by Professor Kennedy, who was involved in writing the new bankruptcy law and who is a professor of law at the University of Michigan.

And his analysis is persuasive to me that in this kind of a company, it is not a question of can you shrink back to half the size and survive? It just doesn't work that way.

The whole thing sort of collapses and then if the market begins to shrink down, you just can't support it. It probably ends up being broken up, and then what you get from that is not—we have not suggested that the facilties wouldn't be recycled. We have suggested that it would take several years to recycle them.

In the process, there would be a lot of lost employment and probably lost jobs to foreign suppliers permanently who would fill in the gap while the transition was taken place.

That is the more likely scenario.

Senator TOWER. You are firm in the conclusion that the costs that are likely to be incurred by the Federal Government would be higher without the Federal loan guarantees than with them.

Secretary MILLER. Yes.

Senator TOWER. You calculate those costs in various ways.

Secretary MILLER. Yes. We will have different experts with different opinions. We thought that we would take what we believe to be a realistic view and based upon costs outgoing for unemployment compensation and welfare and lost revenues, because of lost incomes, lost taxes, we estimate the impact upon the Federal deficit during the next 2 years if Chrysler should go into bankruptcy at the beginning of this year, would be $2¾ billion.

That is just the Federal Government. There would be some local costs in addition.

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We could be substantially in error and we are still talking a much higher cost than the cost of trying to reestablish this company as a successful competitor.

Senator TOWER. I was not able to hear all of your testimony. I have been in and out.

Did you mention our current defense contracts, whether or not those might have to be renegotiated under a bankruptcy situation?

Secretary MILLER. I did not make any reference. Chrysler is the principal producer of the Nation's main battle tank. That is a very important facility and a successful and profitable one.

In bankruptcy, I believe that that would continue uninterrupted and whether eventually it went into different ownership, we would not know.

I do not believe that that would be impaired either by bankruptcy or by any of the plant that we have talked about.

In a reorganization of that type, a consentful, continuing operation. Undoubtedly the worst case would merely be transferred to a new owner.

Senator TOWER. Do you feel like what you are recommending here is adequate, is enough?

Secretary MILLER. What botherod us is that when we began to analyze this, we believed we would be making a gross mistake to recommend to Congress a financing package, which we originally thought was based upon the company's submission might be on the order of magnitude that would do the job, $2.1 billion.

We think we would make a gross mistake to suggest the financing plan for that. If our analysis shows that we need more, then we would have such a high probability of failure, that then we have a high probability of both ending up with a bankruptcy later and ending up with more cost to the taxpayer because you will have had a guaranteed loan that failed and you would have all of the other costs we talk about in addition.

Our view is either do it sufficiently to get the company through to new ground to go on its own or don't do it.

I think the choice as we see is aid it sufficiently and get the job done, or donate it.

Senator TOWER. This is important. If we make the decision to assist Chrysler, if we accept the principle that we should, then rather than try to do it on the cheap, the best thing to do is to figure as liberally as possible what is going to be required.

Would you agree?

Secretary MILLER. We have tried to judge it, not so much liberally as sufficiently. We have tried not to——

Senator TOWER. That is a better term.

Secretary MILLER. I think so, Senator, because we could have come in and said, this is a bad case. Let's go for $4.7 billion. But that is not a realistic assumption.

We have taken capital out and we found out that we can live within a range that we believe is quite reasonable and is sufficient, and is a high probability of seeing the company through this period and coming out of it able to carry on its own.

I believe the $2 billion package would almost guarantee failure.

Senator TOWER. If we are going to do it at all, we should do it with sufficient money. Otherwise, there is no point in doing it.

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Secretary MILLER. I think it would be wrong for us to do it and I think it would just come back in your lap some place.

It would be very inconvenient for all of us.

Senator TOWER. Thank you, Mr. Secretary.

Senator RIEGLE. First of all, I want to compliment the Treasury Department for the care with which they have done their work and the forthrightness and the directness of the answers today.

One of the things that is obvious to me is the conservative approach that you have taken to your estimates. They have been scaled down. And as a matter of fact, I think in some cases too much.

HIGHER UNEMPLOYMENT THAN ESTIMATED

One item that I would like to ask you to clarify for the record in terms of the unemployment effects in a bankruptcy and the worst case, you are estimating here, I think, very conservatively a net job loss of something on the order of 100,000.

The implications of the Department of Transportation study, if tracked through, would show something closer to 600,000 jobs in jeopardy if you have a worst case.

I think having studied this, that their estimate is a more accurate one.

Now it is somewhat beside the point because you are saying that even at your much more conservative estimate, you still see a very compelling economic rationale for going ahead with the recovery plan.

I would like the two compared for the record because I think the risks are, in fact, much greater, both in terms of job loss and GNP.

You are looking at something on the order of a $4 billion GNP loss. And the DOT study would peg it at something closer to $20 billion.

Wherever it might fall within that range, it is excessive, but I think it is important to try to pin it down.

I would like to move ahead to the issue that Senator Stevenson raised. I think he really comes right in on an absolutely vital question for us to try to come to grips with and understand.

That is that we are in the midst of a very complex transition in our country in our industrial base. Lots of things have changed quickly and abruptly. The impact of Government regulations, as Senator Tower has pointed out, have had a major bearing on this particular industry.

But the energy shocks and the development of really a full-blown world market in automobiles has come about over a period of time.

I think the domestic companies were slow, frankly, to anticipate that. But there have been some things that have accelerated it very dramatically just within the last 12 months, and not the least of which was the sharp increase in gas prices and the shutoff of oil from Iran. And as nearly as one can see buying preferences for cars, have now profoundly changed.

I suspect that they are not going to change back.

I think that the energy message has finally been driven home that preferences are changing. We have a very tough assignment

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on our hands as a nation to retool and to produce the kinds of high mileage, fuel efficient cars that are needed.

The problem is, as Senator Stevenson has pointed out, we have no coherent industrial policy in the United States to deal with this.

I agree with you that I think the proposal made the other day by the administration, though helpful, is a very tiny step in the direction of an enormous problem.

Now that is the context in which we have to look at Chrysler.

The first half of my presentation earlier today stated that. Chrysler is probably the most extreme case for us to have to try to deal with in an emergency circumstance.

In other words, it is far from an ideal situation for us to deal with this particular problem at the same time we fashion a larger industrial strategy that is long overdue.

I think we have to not misunderstand the emergency nature of the problem we are in. Senator Garn expressed a concern about whether or not help for Chrysler in this case would somehow adversely affect other domestic manufacturers.

He specifically mentioned Ford and GM.

Our problem today is that 25 percent of the American market has been secured by foreign manufacturers and the percentage is rising because of these abrupt transitions and the fact that for years, their governmental policies have supported the development of the kinds of cars that are now the preference of more buyers in the United States.

We have an enormous catchup job to do and what I would like to see us do is to recognize the emergency in the Chrysler situation and respond to it. At the same time we should not view that as a substitute for the need for a serious new industrial policy that encompasses problems in other basic industries, including steel, which we have talked about earlier today and some of the others that are involved.

I think one of the problems is we have been doing this on a hit or miss basis. We have helped the American Motors Co. because it was the first company in difficulty in the auto industry. We helped in other areas with other kinds of assistance. But we have not put it in any kind of a rational, overall package that really intregrates it into these new world market realities.

Now Chrysler comes along, the 10th largest domestic corporation. Its size is enormous, and suddenly all of these other things that have been going on that we have not paid attention to pull the whole issue into focus.

I would hope, Senator Stevenson, that we could do both things. I think we badly need to do both things. We ought not to damage ourselves as a nation by saying that we are going to respond in a negative way on Chrysler because we are not ready to deal with the larger problem.

It seems to me that we have to work ourselves through that problem and hopefully be wise enough at the same time to start in and develop an industrial strategy for ourselves that can put us on a stronger footing in this new world market situation.

With respect to the market share, there is nothing magic about a 10-percent market share. One can conceive that Chrysler with new model makes, whether a 12-, 10-, or 8-percent share, might very

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well be a profitable company. We have a situation where American Motors is a very tiny percent of the total, and yet today is profitable, in large part because the Government responded to some of the previous problems that they have had.

Mr. Secretary you have been a private sector corporate executive yourself, and I would like to ask you just a couple of things. One is: Would you ever, yourself, as a corporate executive, have accepted the kind of Government straitjacket that in fact goes with this package, if it is approved, except as an absolute last resort?

In other words, was there any way in the world that you would have conceived putting yourself into a posture where your plans had to receive the final sanction of the Secretary of the Treasury, who protects taxpayers' money, except as the only alternative to surviving the industrialization transition that you have described?

Secretary MILLER. As a corporate manager, I would have resisted to the end the involvement in a Government process of planning and supporting my company, because it would have restricted my flexibility. It can only be viewed from the corporate management point of view as a last resort to get through such transition.

I think no corporate management looks forward to this. In cases before—and again, we know of an industrial company recently, Lockheed, rightly or wrongly there was a loan guarantee. During the period of the loan guarantee there were considerable restraints on the company that made its management less flexible, but the pregram worked out. They got free of that and they proceeded on. But they did not look forward to that period except as a last resort, as they saw it.

I might have disagreed with it, but that is how they saw it. I am sure this management would far prefer to proceed independently.

Senator RIEGLE. Let me ask you also, from your past experience as a very successful private sector corporate executive, you have lived with this as much as anybody and you have been very tough, as you probably needed to be in examining the issue. Is this a sound plan, in your judgment?

Secretary MILLER. I believe it is.

Senator RIEGLE. Do you think it has a good likelihood of success?

Secretary MILLER. I do. I would not recommend it if I didn't believe at this level, with good supervision and the management team that is being assembled, this has a reasonable prospect for successful operation.

BANKRUPTCY COST HIGHER THAN LOAN GUARANTEE

Senator RIEGLE. Is there any doubt in your mind that the actual cost to the United States, that the entire country would bear, of a bankruptcy, are far greater, probably several times greater than the cost of the loan guarantee that you are requesting?

Secretary MILLER. If we make this loan guarantee and we end up having to respond to a guarantee and make good on it, we will have lost far less than we will lose if we don't come to the aid of this company.

Senator RIEGLE. Is it also true that if we extend these guarantees and we implement the plan, and we go ahead and we complete the modernization program—and there are a number of facilities that

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are half completed now—there is a major facility, $197 million four-cylinder engine plant in Trenton, Mich.; a $170 million modernization plan underway in Detroit and Newark, Del.; a $197 million plan to produce 425,000 automatic transaxles for front-wheel drive, small, fuel efficient cars in Kokomo, Ind., and so forth—these are all in process, all preparing to produce cars that will be available in the model year following the one that has just started.

Secretary MILLER. And are contributing to industrial base in the United States to produce the kinds of cars we need in the future, and not letting those facilities exist someplace abroad, to gain our market.

Senator RIEGLE. Exactly, and that gets directly to my point. Even if we were to imagine the worst case, and that is that we were to go ahead and implement what is on its face a sensible plan, and if in the end for some other reason—I mean, Senator Stevenson, for example, was asked about the possibility of other future shocks—oil interruption or serious recession or what have you—if in fact we end up down the line with these modernized national facilities, which create productive capacity to meet national needs here in the United States, protects jobs here in the United States—even if at that later point there was a requirement for a merger or some other consolidation within the industry, doesn't the United States, from a strategic economic point of view and a balance-of-payments point of view—wouldn't we be much further ahead to make that adjustment at that time, after we had caught up, after we put ourselves on a more competitive footing with these manufacturers—wouldn't we, in fact, be leagues ahead of where we otherwise would be if we fail to take these steps?

Secretary MILLER. Yes, that is my point about market share. We shouldn't let the United States productive capacity shrink to a lower base. And we shouldn't let it all just accumulate to two companies. And we should have these alternate facilities which cannot be produced in this time frame, unless we do this job.

Senator RIEGLE. Finally, just this: Given the aggressive, competitive nature of the Japanese automobile manufacturers—the various companies have announced efforts to make new initiatives in the American market, because this has been a good hunting ground for them, and for the Germans as well—it seems to me that if we were to defeat this package, collapse Chrysler, and stop the modernization of these facilities which the company needs, that we would be doing something that would directly benefit these foreign competitors. I would think the Japanese and the Germans, looking at the point of penetrating further into the U.S. market, would be hoping that we would fail to pass these loan guarantees.

Secretary MILLER. To follow the Germans' analogy, they probably would send us a Christmas card. [Laughter.]

Senator RIEGLE. I am certain they would.

The CHAIRMAN. Before Senator Heinz asks questions, would you give us unanimous consent to submit questions to the Secretary?

[Questions and answers can be found in Part I, p. 508.]

[No objection.]

Senator HEINZ. Mr. Miller, you are a businessman, and in the legislation that you have sent down to us, you indicate that $1.5

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billion additional funding must come from non-Federal sources. Now, as a businessman, you have a very substantial understanding of what you might call the financing pecking order. Usually, most courts say that employees and suppliers are at the top of that preference, that those who loan money are somewhere in the middle, and the shareholder has the very least preference.

Now, you were asking for a very broad grant of authority. If you read what is in section 102 and 103 of your bill, I can't tell in one million years what you will require. I would like to know, first and foremost, what you are going to require of shareholders, in dollars, or in shares. What do you intend to do, at the minimum?

Secretary MILLER. Let me say that our strong preference, if events permitted it, would be to have negotiated the relative contribution of each of the constituents and to bring you a plan that says: Banks, x million; shareholders, x million; et cetera; et cetera. We have not been able to do that because we have a situation where we were not able to obtain a base plan to do our analysis until October 17.

We have all come to believe that if we do not get legislation in this session, that it will be too late to respond to the financing needs of this company. So we have tried to do the best thing we can to present you with a plan in which we would be completely restricted, barred by statute, to make any assistance unless we got $1.5 billion from these other constituents in terms of concessions in reduction of costs or loans or inputs.

We believe that process is rational because all of those constituents will never sign up unless they believe that the contribution of the others is reasonable.

Senator HEINZ. Let me say this to you to keep you from wasting your time, because I know you have to leave soon: I didn't ask how much we were going to require shareholders to put in. I am asking what contribution to equity must be required for the plan to work. You cannot compel, nor would I suggest that there be any negotiations with shareholders. That is not what I am talking about.

SELLING ADDITIONAL SHARES OF CHRYSLER STOCK

I am talking about how much new equity must be, at a minimum be a part of this plan. The way you get equity into a corporation is you decide to sell shares of stock. There is quite a market for shares of Chrysler stock. According to the Wall Street Journal, a considerable number of shares trade every day, in the tens and twenties and thirties and forties of thousands of shares, at $7. There is a market for stock.

If Chrysler stock was put on the market at $6, $5, or $4, I am sure you could sell, not just millions of shares, but tens of millions of shares.

Secretary MILLER. I am afraid that is not true.

Senator HEINZ. How do you know?

Secretary MILLER. I know that because a company in this state of affairs, in the first place, without a financing plan it couldn't sell anything, in my opinion.

Senator HEINZ. We are talking about selling something in the context of your financing plan.

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Secretary MILLER. Look at the numbers for a moment. Ten million shares, at $7 a share would represent, you know, selling—would represent a dilution in each share that would become less and less. The relationship of markets to nondividend paying stocks and so forth—I think it would be very difficult to predict that one could sell large amounts of stock in Chrysler, even with this plan.

We shall seek from those who have a stake in it, to get an infusion of equity. I can see that dealers might be willing to do so. I can see that some existing shareholders might, or employees might, but the general public at large—to talk about newly issued shares in substantial amounts, I would say is a very unlikely prospect. You can call Wall Street underwriters and see if they would underwrite it, and I think they would tell you no. I don't think that you would find an underwriting house that would——

Senator HEINZ. With a Federal loan guarantee of $1.5 billion, Wall Street underwriters would say, "I'm sorry. We can't sell any Chrysler—any substantial amount of Chrysler stock at any price"? Is that right?

Secretary MILLER. I didn't say that.

Senator HEINZ. What are you saying?

Secretary MILLER. I am saying that any substantial amount at a price that would be acceptable. You can always sell something, but I do not believe that as an independent underwriting of equity, a significant amount of money can be raised by selling stock.

Senator HEINZ. You are saying that it can't be sold at an acceptable price.

Secretary MILLER. An acceptable amount of money. A significant amount of money, I don't think can be raised by selling on an underwritten basis to third parties, uninterested parties, Chrysler stock. I just don't believe it can be done.

Senator HEINZ. How do you know that?

Secretary MILLER. In the first place, they sold stock recently, recently preferred. It doesn't pay a dividend. It has gone down. The risk of this company——

Senator HEINZ. Mr. Secretary, look, I don't want to play games with you. You shouldn't play games——

Secretary MILLER. I don't believe it can be done, Senator.

Senator HEINZ. We are talking about a $1.5 billion Federal loan guarantee. Now, your argument at some point has to break down, if you believe in the operating plan, any of the myriad of cases that you can permutate out, if you believe that $1.5 billion of Federal guarantees plus some other $1.5 billion is going to produce results that result in earnings per share it does not follow—indeed, it is contradictory to say that Chrysler could not have an equity offering under those circumstances.

If that is true, then the plan has failed.

Secretary MILLER. That's not true, sir.

Senator HEINZ. Explain to me if the plan is a success, how it is impossible for Chrysler to sell shares.

Secretary MILLER. To third parties that have no stake, but strangers in the street.

Senator HEINZ. I didn't say who is going to buy them.

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Secretary MILLER. We might raise some stock from the family. You asked me about underwriting stock generally in the market. It can't be done, in my opinion.

Senator HEINZ. I am saying if you put the stock on the market, maybe people who already own it will buy it. Maybe you will buy it.

Secretary MILLER. Would you buy some?

Senator HEINZ. I sure would.

Secretary MILLER. Get his money, quick. [Laughter.]

What is it worth if you have money tied up for 10 years with no yield?

Senator HEINZ. Mr. Secretary, you should call in the partners of Wall Street firms and see if they would underwrite it. Why should we debate? I am not an underwriter. I don't believe they will do it. If they do it, that will solve the problem, but sir——

Senator HEINZ. I know you must go.

Secretary MILLER. I give you my best judgment. My best judgment is we can't do it.

Senator HEINZ. I would like to draw your attention to the October 17 plan of Chrysler which shows that in 1981, in 1981, a little over a year from now, they will make after taxes $393 million. That is $6 a share.

Now how much do you think one share, a share of stock at $6 a share, is going to sell for?

Secretary MILLER. It might sell for $7 if there is no prospect for dividend for 20 years.

Senator HEINZ. You are a financial expert. You mean to stand there and say that something that is supposed to sell for $6 a share in 1981, $8 in 1982, and $10 a share in 1983 is going to sell for $7?

Secretary MILLER. It may. I can show companies that sell for no more than one time earnings that have no prospect for dividends, whose ups and downs in the future may be affected by wars or interruptions.

Senator HEINZ. What is the book value of the corporation per share?

Secretary MILLER. About—presently about $30 some odd, roughly. But it will come down fast from the losses that are involved this year.

Senator HEINZ. Not according to these plans it's not.

Secretary MILLER. Yes, it is. A loss of $1.5 billion in this year and next.

Senator HEINZ. Let me suggest what the problem is.

Your problem is that you are going to create, unless you sell additional equity, an incredible windfall for Lord knows who.

The stock will go from $7 to $20 or $30. That is the book value. And you in the Administration are going to be guilty of having taken Federal money away from American Motors at the expense of American Motors stockholders, at the expense of their employees, more than likely.

You are going to enrich whoever it is that holds Chrysler stock and there is going to be a tremendous windfall and therefore, a ripoff, thanks to this loan guarantee.

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What I hear you saying is, intransigently, equity financing cannot be part of this. There is no market for it. And I think that falls on its face because if it is true, the Chrysler plan is bound to fail.

Secretary MILLER. Senator, I think you have misstated my position. I did not say that we would not try to raise equity.

When you were not here, I told Senator Proxmire that the best thing we could do is raise the maximum amount of equity, the maximum amount of cash from sales of assets, the maximum amount of resources that wouldn't burden this company down with great debt load and interest charges that would destroy those earnings.

EMPLOYEE STOCK OWNERSHIP PLAN

I said to him we would do our best. But you must remember that present employees of this company and the retired employees own 30 percent of it today—that is a fact, today.

So if you are worried about a windfall, you can say that a great deal of it would go to those people. But you would have to ask experts who do underwriting today whether they would undertake this for the reasons they will describe.

In my opinion, they wouldn't.

Senator HEINZ. Owned in the name of company employees?

Secretary MILLER. Yes, a stock ownership program for employees, yes, sir.

Senator HEINZ. It is not a pension.

Secretary MILLER. No. Of the ones who have been employed, some are now retired. It has been in their stock ownership plan. They have 30 percent of the stock today.

Senator HEINZ. Where is the other 70 percent?

Secretary MILLER. Owned by the public, most of whom paid much higher prices for it. The great windfall that you are talking about might bring some of them back to what they paid before.

Senator HEINZ. There will be a substantial recovery in the price of stock, whether or not you sell 50 or 100 million extra shares, or some number in between.

Secretary MILLER. That's not true.

Senator HEINZ. The price of the stock is going to go up.

Secretary MILLER. Well, it may or it may not. If the program is successful, some day it will. But you are asking if you can sell it today, and that's my judgment. I'm sorry I have to leave.

I think we will—you know, if you want to get people in and ask them, I recommend that you do so. But you will find, in my opinion, that you may get dealers, you may get others who have an interest in the company who would be willing to put some money in equity.

You may get employees who will do it because they have a stake in the company. But to go get strangers non-dividend paying stock with no assurance that they will ever pay dividends in the future, the alternative is to put your money into Treasury certificates and double it in 7 years.

Furthermore, the savings bonds yield more than that, if you look at it over time.

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So you have to be careful about what you think people will do with their funds when they have no income while they are sitting and speculating.

I don't think there is a big market for speculation.

Senator HEINZ. I don't know why it sells at $7 a share today, if that is true. Mr. Chairman, I think the Secretary has been very kind and I know he has overstayed.

I do want to thank him for his answers. I hope it will be possible to bring him back.

The CHAIRMAN. Mr. Secretary?

Senator HEINZ. Not today.

Secretary MILLER. I hope not. [Laughter.]

The CHAIRMAN. We will certainly try.

Senator RIEGLE. Could I raise one question?

The CHAIRMAN. Senator Tsongas is next to be recognized.

Senator TSONGAS. I would just like to say I don't mind being bottom man on the totem pole, but every member exceeded his 10 minutes, with the net result that I don't get to ask the Secretary any questions.

I am not going to make a big deal about it, but I would hope in the future if we have time constraints, that the Chairman would be sensitive to those of us who are least senior.

The CHAIRMAN. Let me say to the Senator that he is 100 percent right. It is my fault. It was not the fault of the other Senators. It is my job to say that Senators stay within their time and I didn't do it, and I apologize.

Senator TSONGAS. If you could write that on the blackboard 200 times, that would be adequate.

The CHAIRMAN. I will put it in the Christmas card I send you. [Laughter.]

Senator HEINZ. I feel badly because I must have gone well over my limit. I didn't mean to. I do apologize to you.

Senator TSONGAS. I think I made my point.

Senator HEINZ. Throw a little pencil at me next time or something.

Senator TSONGAS. I will consider the options.

Senator RIEGLE. I would be happy—it doesn't bring the Secretary back, but I would be happy not only to remain, but yield my next 10 minutes to you. I want to join in the apology.

Senator TSONGAS. Let me ask just four questions.

One of the intriguing notions raised by the Administration is the Chrysler jobs seem to be in a vacuum: Either they will be there or they will not.

Isn't it true that the number of jobs in the industry is the function of the number of cars that you sell, and that it is not a function of Chrysler's being solvent and competitive?

Mr. ALTMAN. Over the long haul, that is true.

Senator TSONGAS. So if Chrysler remains and you gain 100,000 jobs and you keep 100,000 jobs, the market goes down. It comes out of somewhere else. Water seeks its own level. Isn't that true?

Mr. ALTMAN. In terms of total jobs around the world, Senator, as I said, I think that is true over the long term.

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One of the key elements of our argument is the location of jobs involved here and the extent to which the location of those jobs would change if Chrysler failed.

Some of these jobs would be replaced——

Senator TSONGAS. That is what I am getting to.

Mr. ALTMAN. Some would be in other countries.

Senator TSONGAS. What percent?

Mr. ALTMAN. Almost all of the lost jobs here would be in the Detroit and Michigan area.

Senator TSONGAS. Those would go to other—what percent of the jobs lost actually go overseas permanently?

Mr. ALTMAN. Well, we don't have a specific estimate of that, but it is our judgment that a portion of the lost production, the lost Chrysler production, would be made up for by foreign producers who might or might not produce those cars in this country.

A portion of the jobs would be lost to foreign jobs.

Senator TSONGAS. You must have some parameters in which you define portion.

Mr. ALTMAN. It depends on two things. It depends on the first point you made, which is overall car sales. And it depends also on the mix. The greater the amount of small car sales over the near term, the greater likelihood that—the greater the proportion of lost jobs will be lost overseas.

I just can't quantify it more than that without engaging in speculation I can't do.

HIGH PRIORITY ON FUEL-EFFICIENT CARS

Senator TSONGAS. If the point assumes that the first priority of this country is to have fuel-efficient automobiles, why are we any better off with Chrysler than without Chrysler?

Why not have more Datsuns sold—Datsun, Toyotas, and the others?

They made good, sound management decisions when we did not.

Mr. ALTMAN. There are a whole series of reasons why we think it is better to go forth with this financing plan, which we think can maintain Chrysler, rather than to permit it to go bankrupt, which would be the result of not going forth.

No. 1, it would cost the Federal Government——

Senator TSONGAS. I understand all that. But from the point of view of the fuel efficiency of the cars and the American roads.

You said to me yesterday that the Aspen would get 27 miles per gallon, which I think is extraordinary, but let's assume that. Why would we want somebody to buy an Aspen at 27 miles a gallon if they could buy a Rabbit and get 40, if you consider our dependence upon foreign imported oil as the No. 1 crisis of this country?

Mr. ALTMAN. I think that there are a series of arguments as to why it makes sense to maintain Chrysler as a viable competitor which go to the questions of costing the Federal Government of competition within the overall automobile industry, domestic competition as it relates to pricing for consumers.

Senator TSONGAS. Let me grant you those. Let me ask a specific question.

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Mr. ALTMAN. Taken absolutely in the abstract, there is not a fuel efficiency reason for maintaining Chrysler. But I don't think that it can be looked at in the abstract.

Senator TSONGAS. I am trying to isolate some of these factors and see how they all play out.

This notion that regulation is what caused the demise of Chrysler is nonsense. One of the regulations is to build a fuel-efficient car. It also happened to be in our national interest, but that is where the country got to.

Does the management of Chrysler really believe what it says, that its dilemma is caused by Government regulations such as the fuel-efficiency standards?

Mr. ALTMAN. I think the management clearly believes that the company has been discriminated against unintentionally by the fuel efficiency and emissions standards because its volume is lower and therefore, the cost per unit to Chrysler of complying with these Federal regulations is much greater than the cost per unit to GM and Ford.

So, yes, it believes that the effects on its cost structure is a major contributor to it being in the financial condition that it is in today.

Senator TSONGAS. Which they could have avoided if they had made the proper management decisions back when it was obvious to some people that there was going to be a greater demand for small cars.

Mr. ALTMAN. In part.

Senator RIEGLE. Would you yield at that point, Senator, Tsongas?

There clearly is something to the point that you make. But I think that draws it too narrowly because you had other things at work at the same time. You had other national policies in this country apart from Government regulation of automobiles that kept the price of gasoline low and encouraged people to use a lot of it and to buy bigger cars with poor mileage.

Senator TSONGAS. I was here when you said that and I understand the argument that you are making.

My concern is not so much the past but the future. I was here in 1975 when Mr. Iacocca, among others, helped to torpedo the fuel efficiency bill. If that is the same management team, what gives us hope that they are going to embark on a new realism now that they are not willing to embark on the past?

We can argue the past. The question is does this new management team amount to anything and can we have confidence that they are going to look at the world in very cold terms and not simply point to Washington as the cause of their troubles?

All of these foreign manufacturers penetrate our market with great success.

I don't suppose that that is an answerable question. Are you convinced that these people understand why they got themselves into a dilemma?

Mr. ALTMAN. I was about to say that a partial answer to your question is that the Chrysler management team, or part of it, is new. It is not the same management which presided over the company for the past several years during which its market share declined and its financial condition worsened and all that.

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Senator TSONGAS. Why would you throw out the management team if the cause of the demise is Government regulation?

Mr. ALTMAN. We are not arguing, as you know, that—we are not relating our proposal to the regulatory burden. We have made a very clear statement, I think, in this testimony that we don't rely on that.

Senator TSONGAS. Let me make one other point before I finish.

I have no interest in this bill in terms of my State. There is no significant economic impact. My major concern is what happened a couple of years ago with the fuel-efficiency bill and the willingness of the auto industry to forego the national interest in terms of their own particular interest. I don't think this is forgivable—I suppose it is forgivable in some sense, but given the amount of sacrifice expected, it is astounding that the UAW and Chrysler came to their recent wage agreement.

How can you honestly expect that people in Massachusetts who are not concerned about this particularly, look upon a contract that violates the wage, price guidelines, while at the same time the company comes to us asking for help?

I suspect that the chairman is going to make the straitjacket that the Senator from Michigan spoke about—the bill which exists now—seem very flexible by the time we finish.

COMPANY AND UNIONS MUST SACRIFICE

And I hope that both the company and individuals in the unions understand that sacrifice is a two-way street.

It seems to me that if they are going to be up here demanding this kind of money, that they would exert upon themselves the kind of discipline that will give them a constituency around the country to, indeed, engage in this kind of "bail-out."

I frankly think that that contract did more damage to Chrysler's case because however you understand balance of payments, whatever, everybody understands contracts and wage guidelines—it seems to me that particular agreement was poorly timed, to say the least.

And I for one will participate with the chairman in trying to resolve some of those other equity issues.

The CHAIRMAN. Before Senator Tsongas has to go, one of the questions that related to the cost of regulation to Chrysler and to the smaller companies, I just received a report from the Department of Transportation. As you know the other Senators supporting the Chrysler loan have decided that the Department of Transportation is an expert. Let me read the first paragraph:

"Pursuant to your request of November 9, enclosed is a copy of a report analyzing the claims that automobile regulations have disproportionate adverse effects on smaller companies. After analyzing the industry-supplied data and profitability and investment patterns, we conclude that there is no data to support such claims, that the effective regulations tend to be proportional to company size and do not have a greater effect on the smaller companies."

That is the report, 100-page report, that took almost a year to arrive at. I am going to have it inserted in full in the record.

[Copy of the report referred to follows:]

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THE EFFECTS OF AUTOMOBILE REGULATIONS ON INDUSTRY COMPETITION

An Analysis of Claims That Regulations Have a Disproportionate Adverse Effect on Small Companies

National Highway Traffic Safety Administration

Office of Plans and Programs

November 1979

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I. SUMMARY

In recent months, claims of severe adverse effects of regulations have increased. The single most repeated, and potentially significant, allegation is that automobile regulations have a greater adverse effect on the smaller automobile companies than the larger ones. Chrysler Corporation has frequently made this claim, often stating that there is widespread agreement to its validity. The stated conventional wisdom is that disproportionate impacts on smaller firms are one of the prime causes of Chrysler's current financial crisis.

This report is the National Highway Traffic Safety Administration's (NHTSA) analysis of the basis for this belief. The report focusses on Chrysler, but only by way of illustration. This is done because that corporation has provided numerous examples of the purported effects of regulation and because more information is available concerning its finances, relative to the other companies, due to the public release of its future operating plan.

This report does not address whether Chrysler should receive Government financial assistance. That issue is being considered in the Congress following receipt of the Treasury Department request for loan guarantees to Chrysler and it not related to the issues analyzed in this report.

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The three main claims of disporportionate regulatory burdens are: (1) regulations require equal burdens per company and the smaller firms must spread these costs over a lower production volume, resulting in a higher per unit compliance cost; (2) smaller firms, having to raise capital to meet these equal per company burdens, must pay a higher borrowing premium; and (3) a larger portion of the smaller firms' technical and R&D resources must go to meet regulations, leaving them little to use for product improvement.

These charges are addressed separately in Chapter IV. The conclusions reached in that chapter and elsewhere in this report are based on analyses of publicly available data. Corporate financial reports, consultant studies, and industry submissions to rulemaking dockets comprise the bulk of the information used in the analyses which follow. The results of those analyses are that:

1. Regulations do not impose equal burdens per company. Instead, an examination of corporate financial statements shows that investment costs, both in the past and as projected for the future, show higher costs for the larger firms. Total investment costs tend to be roughly proportionate to sales volume, negating any disproportionate effect of regulations. This occurs because although compliance costs may be

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equal per model, or per engine or per transmission line, the larger firms have more of each of these than the smaller ones. Thus, total investment costs tend to be proportionate to sales volume.

Also, economies of scale in the automobile industry occur at relatively low production volumes. For an engine line or transmission line to be running efficiently, production levels of only 300,000 to 500,000 units per year are necessary. Since Chrysler produces more than 1,000,000 passenger cars annually, it too can operate at the same levels of efficiency as larger firms, such as General Motors.

2. Industry investment costs per vehicle are not higher for the smaller firms. In fact, the exact opposite is the case. Historically, General Motors' capital investments per vehicle were about 15 percent higher than Ford's, Ford's were at least that much higher than Chrysler's, and Chrysler's were several times more than American Motors'. For the future, this higher investment per vehicle for the larger companies is estimated to increase even further. This does not imply that regulations have a larger disproportionate burden on the larger firms. Because of their greater resources, these firms can often afford to produce more of their desired components internally, while their competitors must purchase many of these technologies. However, the anaylsis shows that the allegation of higher investment costs per vehicle for smaller firms is not supported by available data.

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3. Very few regulations require "huge" capital investments. In the past, most regulations have increased variable manufacturing costs, not capital investments. In fact, per vehicle capital investments, since the advent of regulations, have significantly decreased.

4. Any potential disproportionate adverse effects of future regulations, which are dominated by the need to improve fuel economy, are overstated. Chrysler, for example, states that all of its increases in capital investments over the next few years are solely due to regulations. Yet it is apparent that fuel economy is a marketable characteristic and investments to improve fuel economy are also related to consumer demand and competitive pressures. These latter driving forces are often ignored when claims of adverse effects of regulations are made. According to recent statements by General Motors (GM) and Ford, the market is now demanding more fuel economy than current regulations require, thus mitigating the investment effect of fuel economy standards.

5. Corporate ability to generate capital is a function of financial health, not just size. The profitability of American Motors, as well as the Standard and Poor's ratings for other automotive firms, show that companies smaller than Chrysler are having less difficulty in raising and paying for capital.

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6. The effects of regulations on research expenditures are of unknown magnitude. There does not exist any data to quantify the belief that compliance with regulations may take up a larger portion of a smaller firm's technical resources. GM is the only firm supplying regulatory R&D expenditures. They claim that this amounts to 40 percent of their total R&D budget. As most firm's R&D expenditures are only 2-3 percent of sales revenue, regulatory R&D expenditures only amount to a maximum of about 1 percent of total revenue. Whatever the precise amount of R&D which is related to regulations is, it appears to be quite small.

In conclusion, the Agency, through analyzing the industry's own financial and other data, finds no basis for the belief that automobile regulations have a greater negative burden on smaller firms. If anything, the data show that the smaller firms have spent in the past, and are still projecting to spend in the future, less per vehicle than their larger competitors. Furthermore, any future investment levels are primarily a result of the need to improve fuel economy, a need required more by consumer demand and competitive pressures than by regulations.

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Necessity of This Report

In November 1978, while preparing its annual report to the Congress on the fuel economy program, the Agency realized that the increases in investments necessary to improve fuel economy would have different effects on companies of different sizes, because of their various profitability and cash flow situations. To obtain additional information on the subject, a request for information was printed in the Federal Register on November 27, 1978.

In its request for public comment, the Agency hypothesized that the fuel economy program "has the potential for affecting the various different size manufacturers in disparate and possibly unintended ways" (emphasis added). The reasoning behind this hypothesis was that it was believed that larger firms could more readily raise the necessary investment capital internally than could the smaller companies. The Agency asked whether this were so; if it was, how significant was the difference in ability to raise capital; and, should the program be modified to require different standards for smaller companies?

Little quantitative data was supplied in response to this request for information. Instead, comments centered on the desirability of having differential fuel economy standards. Ford and GM took strong exception to this thought. Ford felt different standards "will lead

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to unfairness and chaos," while GM stated "Treating competitors in the same industry differently would not be fair, equitable or in keeping with our traditional principles of competition" and "penalizes foresight, efficiency, and success." Chrysler, on the other hand, stated that regulations tend to penalize smaller companies.

Although differential standards were not proposed, the Agency continued to investigate any potential differential effects of its regulations. This past summer, charges of differential effects have been prominent as the magnitude of Chrysler's cash flow problem became known. These most recent charges include allegations that automobile regulations have greater adverse effect on smaller manufacturers, thereby reducing the profitability of those firms and eventually leading to increased concentration in the automobile industry (i.e., fewer manufacturers or a greater share of the market for the larger firms). Chrysler, in particular, has claimed that Government regulations have had a disproportionate effect on them and that regulations are one of the primary causes of their difficulties.

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An analysis of the presumption that there are significant differential effects on companies of varying size, is important and merits special attention. The purpose of regulating the automobile industry is to achieve the legislatively established goals of improved highway safety, cleaner air, and decreased reliance on imported oil through requiring improved automotive fuel efficiency. It was certainly not intended, nor anticipated, that such regulations might affect major corporations to the extent that they are forced to significantly curtail production or cease operations.

This report examines this issue using industry-supplied data wherever available. It is an attempt substantively and quantitatively address effects of regulations by size of manufacturer. Because of the current

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controversy surrounding this issue, the Agency felt it timely, appropriate, and necessary to address it. (Many of the other charges against regulations -- that they are inflationary, retard innovation, hamper productivity, etc., -- are addressed in a companion document[1].) This report centers on the Chrysler Corporation, but only as an example, because of the scrutiny now being given to that company's records. This focus should in no manner be interpreted as anything other than an illustrative, although hopefully realistic, example of the effects of regulations on a company's financial health.

Prior to addressing the specifics of the issue, it is desirable to understand why the regulatory framework was put in place, how regulations are developed, and what they require. This is done in the remaining parts of this chapter.

B. The Need for Regulation

Automobile Safety

In the early 1960's, motor vehicle-related fatalities grew at an alarming rate. From 1961 to 1966, motor vehicle deaths increased from 36,000 to more than 50,000 -- a 40 percent increase in just 5 years.

1 The Contributions of Automobile Regulations, NHTSA, November 1979

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TABLE II - 1

Motor Vehicle-Related Deaths*

Year	No. of Fatalities	Percent Increase
1961	36,285	
		7.43
1962	38,980	
		7.04
1963	41,723	
		9.40
1964	45,645	
		3.16
1965	47,089	
		8.08
1966	50,894	
1961-66	Increase----------40% or 7.0% per year	

*Source: Motor Vehicle Safety 1977, NHTSA, July 1978

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At the same time, the death rate per 100 million vehicle-miles traveled increased from 4.92 in 1961 to 5.48 in 1966 -- an 11 percent increase. And in 4 of those 5 years, the rate increased, reversing the historical downward trend in deaths per unit of exposure.

Faced with the dual calamity of increasing exposure (i.e., highway travel), as well as risk (the death rate), Congress enacted the National Traffic and Motor Vehicle Safety Act of 1966[2]. That Act had as its purpose ". . . to reduce traffic accidents and deaths and injuries to persons resulting from traffic accidents. Therefore, Congress determined that it is necessary to establish motor vehicle safety standards for motor vehicles and equipment in interstate commerce . . ."[3] Among other things, the Act gave authority to the Secretary of Transportation to "establish . . . Federal motor vehicle safety standards . . . (which are) practicable, shall meet the need for motor vehicle safety, and shall be stated in objective terms."[4] Thus was born the first instance of Federal motor vehicle regulation.

Furthermore, the Government recognized that approaches other than improving the safety of the vehicle itself were necessary to reduce highway deaths and accidents. Hence, Congress also enacted the Highway

2 Public Law (P.L.) 89-563, September 9, 1966

3 P.L. 89-563, Preamble

4 P.L. 89-563, Section 103(a)

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Safety Act of 1966[5]. Through this legislation, a grant-in-aid program to the States was established to improve State driver licensing, registration, and accident investigation procedures, to address the problem of driving while intoxicated, to improve the repair and maintenance of vehicle safety devices, and for other purposes related to the driver and the operation of motor vehicles. Funds for this program could be used by State/local governments to improve driver education courses, driver licensing techinques, drunk driver rehabilitation, the traffic court system, periodic motor vehicle inspection techniques, identification of hazardous locations, pedestrian education and protection, etc.

In addition, improved safety is an integral part of highway design and construction. Breakaway signposts, guardrails, improved median barriers, roadside clearance, and functional signing and lane markings are all eligible items for payment by the Government under its grant-in-aid programs for highway construction and improvement. Also, there are a host of separately funded highway safety programs dealing with elimination of roadside obstacles, rail-highway crossings, and high-hazard locations.

In essence, the Government has not focussed on the motor vehicle as the only "culprit" in the highway safety problem, but also has programs which address the driver and the roadway.

5 P.L. 89-564, September 9, 1966

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Emissions

The Federal government has passed a series of laws to help curb pollution and protect the environment over the past 20 years. Many of these laws affect the automotive industry. They call for air and water pollution controls on stationary sources such as automobile assembly plants or manufacturing operations which supply components to the automotive industry. Air pollution control laws have also required the development and installation of emission control equipment on mobile sources (e.g., cars and trucks).

Motor vehicles significantly contribute to air pollution problems in the United States, particularly in urban areas. The specific air pollutants associated with motor vehicles, and regulated by the Environmental Protection Agency (EPA) pursuant to the Clean Air Act of 1970 and 1977 are hydrocarbons (HC), carbon monoxide (CO), and nitrogen oxides (NOx) for gasoline engines and, in addition, possibly smoke and particulates in the future for diesel engines. EPA implements these regulations by requiring the automotive industry to install appropriate pollution control hardware and systems on light and heavy duty motor vehicles which are covered by the regulations.

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Allowable emission control levels for automobiles are expressed in terms of grams of pollutants per mile traveled (gpm) as measured using a standard Federal Test Procedure. Emission standards must be met over the first five years or 50,000 miles of travel, whichever comes first. Individual States may request waivers from EPA on Federal emission standards and impose more stringent requirements where necessary to protect human health.

Fuel Economy

In December 1975, Congress passed the third major regulatory program[6] affecting the automobile. Title III, Part A, of the Energy Policy and Conservation Act[7], established passenger car average fuel economy standards (in miles per gallon) for model years 1978-80 and 1985 and thereafter, and required the Secretary of Transportation to prescribe passenger car standards for 1981-84 and also to establish fuel efficiency standards for light trucks and vans.

Succinctly, the rationale behind such legislation was that the Nation had become too dependent on imported oil and its economic health and national security were being threatened by this growing reliance on a few foreign

6 P.L. 94-163, December 22, 1975

7 Added Title V, Improving Automotive Efficiency, to the Motor Vehicle Information and Cost Savings Act (MVICSA)

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governments. As the automobile consumes nearly 40 percent of all oil used in the country, it was a natural target for attention. Although the Ford Administration had obtained written understandings from the automobile manufacturers to voluntarily improve their fleets' fuel efficiency by 40 percent between 1974 and 1979, Congress observed that such agreements were not legally enforcable and felt that providing insurance that major improvements would be made was a necessity. Thus, the regulatory program was devised.

Other Areas of Regulation

Automobile manufacturers are subject to additional areas of regulation. As with nonautomobile companies, these firms must comply with equal employment, trade, social security, stationary source emissions, and other general types of regulations. However, in the auto industry, compliance with these regulations takes second place, in terms of costs, to product regulations. The effect of these general regulations ". . . is infinitesimal when compared to the discriminatory effect of automobile product regulations."[8] Therefore, this paper only addresses the effects of the above mentioned product regulations.

There are other product regulations which, although not described above, also have an impact on company plans. These include bumper

8 Is Government Assistance to Chrysler Consistent with the Working of a Free Marketplace, Chysler Corporation, August 1979

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standards to reduce damage in low-speed crashes[9] and noise standards for heavy vehicles[10]. Compliance with these standards are included in the following analyses to the extent possible.

C. The Regulatory Process

Although the origins of regulations vary by the type of regulation (i.e., safety, emissions, fuel economy, damageability, etc.,), they share threads of commonality. These consist of Federal agency compliance with the requirements of the Administrative Procedures Act[11]. That Act essentially requires that before a regulation can be promulgated, the Government agency must: (1) Notify the public of its intentions, (2) provide ample opportunity for public comment on the proposal, and (3) consider the public's comments (and the regulated industry is considered part of the public) prior to reaching a final decision.

The actual public documents prepared consist of the following: (1) An Advance Notice of Proposed Rulemaking (ANPRM), (2) Notice of Proposed Rulemaking (NPRM), (3) Final Rule, and (4) Regulatory Analysis (or Regulatory Evaluation). ANPRM's are issued when an agency believes there is a regulatory solution to a problem but is not sure what forms that

9 Required by Title I of MVICSA

10 P.L. 92-574, October 27, 1972

11 P.L. 404, 79th Congress, June 11, 1946

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solution should take. ANPRM's essentially ask questions of the public and raise issues but do not specifically propose a particular regulatory action. NPRM's are issued when more specificity is available and a regulatory agency is making a definite proposal. In essence, NPRM's are draft final rules published for comment. NPRM's are published in the Federal Register (as are all of the first three documents mentioned above) and normally provide a public comment period of from 45-90 days. Final Rules --- the actual regulations --- are promulgated after the agency has considered and analyzed the public's comments. It should be noted that regulations normally do not take effect immediately upon issuance, but instead they provide "lead time" of often several years between the date the regulation is issued and the date it takes effect.

The fourth document, the Regulatory Analysis or Evaluation, contains the agency's estimate of the effects of its regulation. This document, required by Executive Order[12] of the President, states the problem the regulation is intended to address, discusses the alternatives to the regulation considered by the agency, and analyzes the costs and benefits of the rule. Regulatory analyses and evaluations are prepared both for the NPRM and for the final rule. These are public documents, published for comment, which essentially lay out the rationale for the regulation and its attendant consequences.

12 Executive Order 12044, promulgated March 24, 1978

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Thus, regulations are not issued in a vacuum, but are often based on years of research and analysis, and are drafted in an open, public form. The industry itself, as well as others, have the opportunity to comment upon and criticize the rules themselves, as well as the foundation upon which those rules are based. This opportunity to inform the rulemaking agencies of differential or adverse impacts should be borne in mind when reviewing the analyses of industry-supplied information in Chapter IV.

D. The Nature of Regulations

When most people think of Government regulation, they usually envision extensive, detailed rules and requirements specifying the shape or construction of consumer products or workplace machinery. Standards such as these are called "design" standards; that is, they specify what the actual product must look like. The regulations thus result in the Government "designing" the product.

Contrary to this, automobile regulations take the form of "performance" regulations. Rather than specifying a design for a product, automobile regulations only require minimum performance levels to be met, leaving the manufacturer free to chose the most cost- effective design for that particular model vehicle. For example, damageability requirements for bumpers only specify the maximum amount of damage the bumper can sustain in a 5 mph crash. The regulation does not specify "how" this is to be achieved.

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Manufacturers use their ingenuity in producing a variety of bumper configurations utilizing steel, aluminum, and elastomeric materials in their bumpers.

Another example is the fuel economy standards. Manufacturers are required only to meet the minimum, fleetwide average standards. Companies can comply through a variety of methods. Technologically, they can reduce vehicle weight, improve engine and transmission performance, or redesign their vehicles to reduce aerodynamic resistance. Strategically, they may chose to market only the more fuel efficient vehicles. Or, they may use advertising to persuade people to buy more of the higher fuel efficiency cars or they may do the aforementioned for all of their vehicles or some of their vehicles, etc. As seen, there are a variety of corporate strategies available for compliance.

In summary, in attempting to analyze the effects of regulations, it is important to understand the reasons why regulations were deemed to be necessary and the process by which they are promulgated. The interaction between the regulatory agencies and the public, including the regulated industry, is an important part of this process.

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III. THE AUTOMOBILE INDUSTRY

A. Introduction

The prime criticisms of automobile regulation allege adverse effects on corporate financial health and competition. Charges of impeding growth, reducing profitability, and increasing concentration (fewer firms) have been levied against regulations. Analyses to support these claims center on the period 1967 to the present -- the "regulatory period." It is necessary to examine the industry's historical structure and operations prior to reaching conclusions on the effects of regulations, since many of the adverse "trends" linked to regulations originated prior to the period in question.

This chapter provides a brief summary of the industry's origins and growth. It begins with a synopsis of the industry's evolution into the present small number of domestic companies, follows with a discussion on sales, and ends with a presentation of the companies' financial pictures.

B. Growth and Concentration in the Auto Industry

The patterns of development in the U.S. automobile industry have determined its current structure. In the beginning, tha industry

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was characterized by a large number of firms with ease of entry into the business. Capital requirements were low, technology developed rapidly, and car sales continually increased. As the industry matured, it developed mass production techniques which resulted in more advanced assembly line processes, standardized components, and brought about a more distinct division of labor.

In the 1920's, auto companies began to emphasize a range of vehicles rather than a single car line. The latter part of that decade witnessed the introduction of more rapid styling changes and engineering advances designed to encourage more rapid replacement of vehicles. General Motors (GM) was in the forefront of this movement and by 1929 had emerged as the dominant domestic manufacturer. GM's dominance of the domestic industry was achieved in only 12 years. The company's success is frequently attributed to (a) the rapid acquisition of other companies when capital costs were low; (b) the introduction of the annual styling changes in the late 1920's; and (c) Ford's continued reliance on the Model T, which resulted in Ford losing a significant share of the domestic market.

In addition, Ford and GM made major expansionary moves abroad in the 1920's. Ford established assembly plants in England, France, and Germany while GM acquired Adam Opel, A.G., of Germany, and Vauxhall Motors Limited of England. Thus, by 1930, both firms had established themselves as global enterprises.

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Chrysler Corporation was incorporated in 1925 with the acquisition of Maxwell Motors. Chrysler acquired Dodge Brothers, Inc., in 1928. By the end of the 1920's, the domestic automobile industry was dominated by three firms -- General Motors, Ford, and Chrysler. As these three companies grew through expansion or merger, they began to realize economics in production that the smaller firms could not match. Smaller firms continued to produce automobiles for specific market segments; however, they could no longer compete in the high volume, mass market of the average car buyer.

This trend toward concentration (fewer firms) continued into the period of the 1950's -- a period when the weakest of the remaining companies fell by the wayside and the rank order of market shares was firmly established. In the 1950's and early 1960's American Motors was formed (from Kaiser, Willys, Nash-Kelvinator, and Hudson) and Packard and Studebaker ceased production. Thus, by the mid-1960's, there were only four major domestic producers of passenger cars -- the same number existing today (other manufacturers produce speciality cars in low volumes -- such as Checker Motors -- but these account for less than one-tenth of 1 percent of total production). Figures III-1 and 2 and Table III-1 illustrate the evolutionary pattern of the auto industry -- from a stage of entrepeneurial opportunity to one of mergers and acquisitions to its current state of relative stability in terms of number of domestic manufacturers. Thus, the cycle from a rapidly growing industry to a relatively stable one in terms of number of manufacturers and lower sales growth, was

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FIGURE III-1

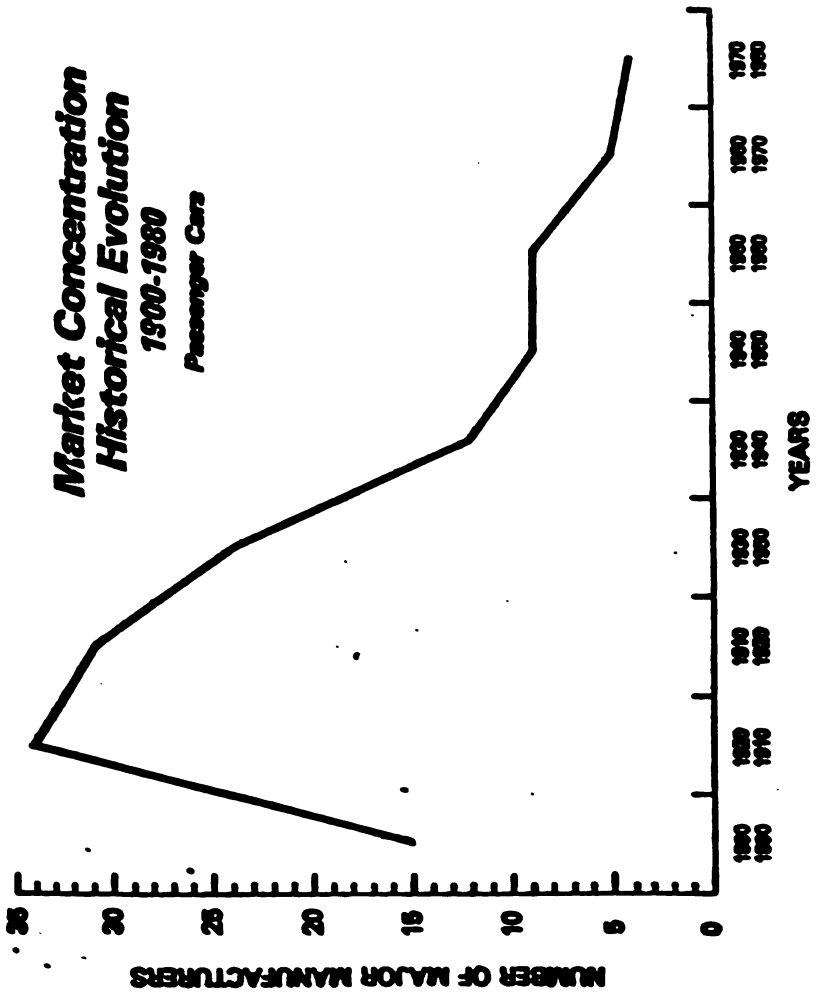

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FIGURE III-2

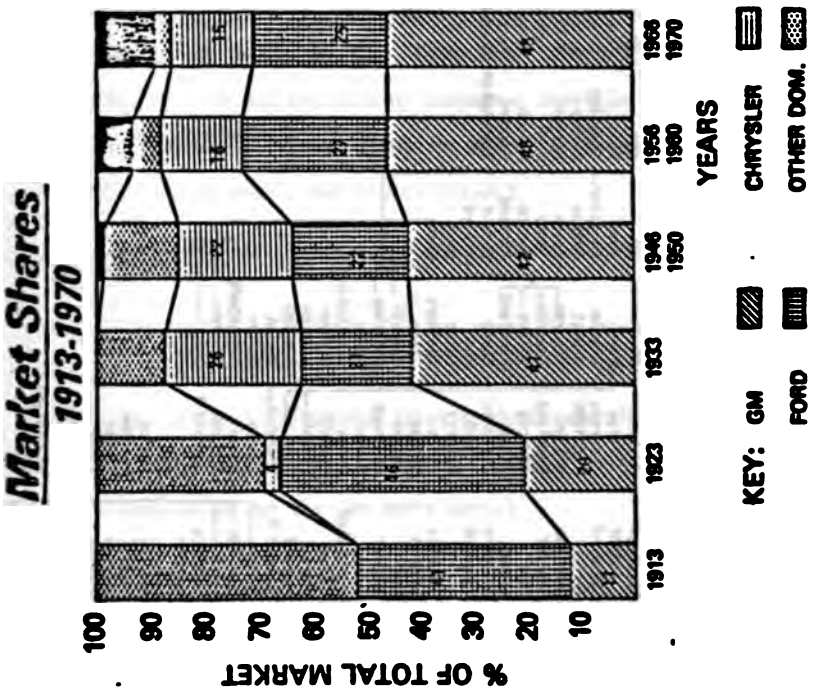

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TABLE III-1

PASSENGER CARS

MARKET CONCENTRATION - HISTORICAL EVOLUTION

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essentially complete by the mid-1960's, several years prior to the initiation of automobile regulation.

Now, the industry seems to be undergoing a fourth phase, one in which foreign manufacturers, for reasons relating to international currency fluctuations among others, are finding it beneficial to start production in the United States. Volkswagen initiated such production in 1978 and has already surpassed American Motors in passenger car volume. Other companies are also anticipated to soon begin U.S. operations. (See Figure III-3.)

C. Growth in Sales

Domestic production of automobiles has risen from about 1 million in 1915 to 4 million in 1929, reached 5 million just after World War II in 1949 and peaked in 1973 with sales of just under 10 million. As shown in Figure III-4, sales increased rapidly through 1950 (except for the Depression and the two World Wars.)

This growth continued through the '60's, although at a slower, more cyclical pace, with sales volume rising from about 5 million in 1959 to 8.2 million by 1969. Production continued to increase until it reached its zenith in 1973. Following the oil embargo of 1973-74 and the escalating price of gasoline, sales declined 30 percent in the next 2 years, but rose again to nearly record levels by 1978, when production was 9.2 million. Estimates for 1979 are slightly under the 1978 level.

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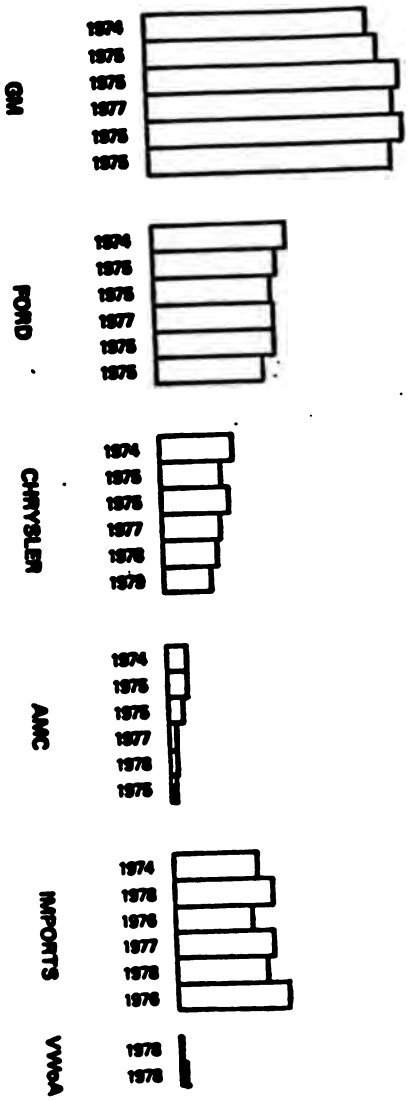

Market Shares 1974-1979

FIGURE III-3

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FIGURE III-4

Passenger Car Sales History
(Domestic Cars Only)

SOURCE: AUTOMOTIVE NEWS – AUG 27, 1975
WARDS REPORT – JAN 8, 1979

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There are two significant patterns to be recognized here. The first is that the U.S. automobile industry is a "mature" industry. The majority of future sales is expected to replace the existing fleet rather than rapidly expand the absolute number of vehicles. The U.S. has the highest ratio of automobiles per person in the world[1]. There are now more vehicles than persons licensed to drive them[2]. Passenger car production has essentially grown to the point where the Nation is saturated.

Most industry analysts, as well as the industry itself, agree that future growth will be modest. Thus, increasing profits by simply selling more vehicles is unlikely unless a company can shift consumers away from its competitors' vehicles.

The second pattern concerns the cyclical nature of the auto industry (see Figure III-5). Automobile purchases are essentially discretionary -- that is, during hard economic times many people will defer purchasing an automobile. This relation can best be illustrated by examining the changes in sales and GNP during recession years. As shown in Table III-2, drops in sales volume greatly exceed declines in

1 MVMA Motor Vehicle Facts & Figures '79, Motor Vehicle Manufacturers Association, 1979

2 Vehicle registrations were 149 million in 1977 while licensed drivers totalled only 138 million. Highway Statistics 1977, Federal Highway Administration

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FIGURE III-6

Passenger Car Sales History
(Domestic Cars Only 1970-1978)

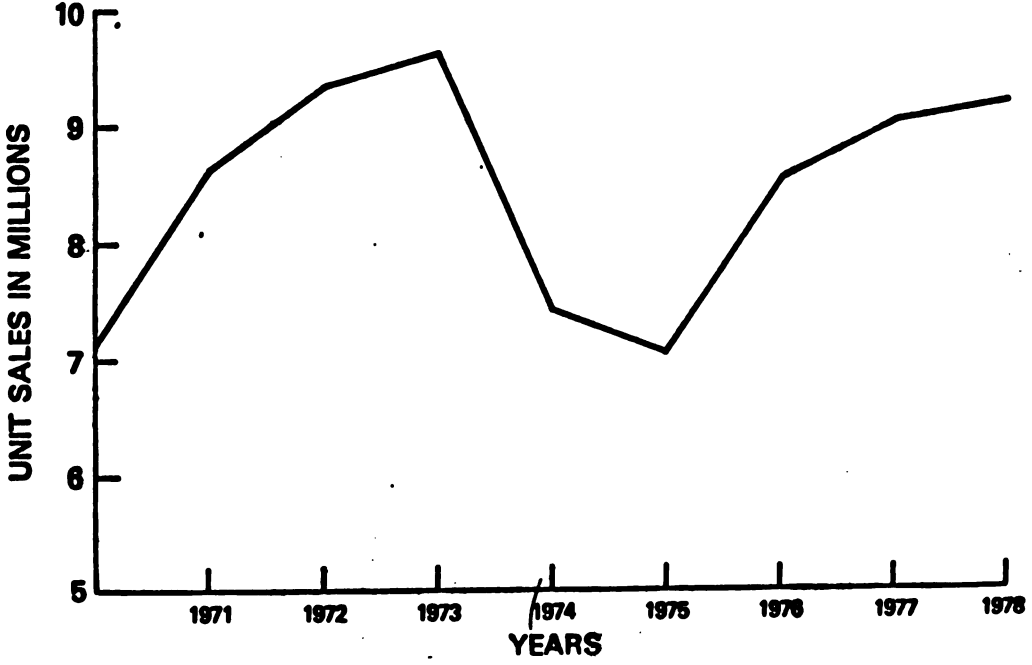

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TABLE III-2

GNP and Domestic Auto Industry's Net Sales
Historical Perspective

	GNP In Billions of 1972 Dollars	% Change in GNP	Domestic Auto Industry Net Sales (billions of 1972 dollars)*	% Change Net Sales
1967	1007.7	—	42.9	—
1968	1051.8	+4	49.6	+16
1969	1078.8	+3	50.3	+ 1
1970	1075.3	-1	43.8	-13
1971	1107.5	+3	54.8	+25
1972	1171.1	+6	61.7	+13
1973	1235.0	+5	70.4	+14
1974	1217.8	-1	62.8	-11
1975	1202.1	-1	62.4	- 1
1976	1274.7	+6	74.5	+19
1977	1337.3	+5	81.3	+ 9

* Durable goods price deflator for GNP

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GNP. Thus, the auto industry's sales -- and profits -- are very susceptible to changes in the economy. In effect, industry sales declines are often the leading edge of indications of economic downturns and the industry's peaks and valleys of sales are much more pronounced.

However, this relation also works in the reverse fashion. As the economy recovers from a downturn, the deferred purchases from the previous year take place and auto sales adjust faster than the general economy.

Thus, automobile industry sales and profits are cyclical. They are highly dependent on the state-of-the- economy. In the past, when sales took a downturn and profits were reduced, capital spending -- which is usually financed through profits -- was deferred. However, given the nature and magnitude of planned investments to improve fuel economy, this may no longer be possible.

D. Market Shares

As shown in Figure III-2, the top three firms -- Chrysler, Ford, and General Motors -- have accounted for roughly 85 percent of domestic sales since the early 1930's. Although dozens of firms have come and gone since that era, the current concentration in the industry; i.e., the dominance of the market by a small number of firms, is not a new

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phenomenon. Essentially, what has happened is that the sales of small domestic producers (Cord, Nash, Kaiser, Willys, Packard, Hudson, etc.,) have been replaced by sales of imports (Volkswagen, Datsun, Toyota, etc.,).

In terms of numbers of firms selling vehicles in this country, there has not been a significant change in the last several decades. As Table III-3 shows, in the subcompact market alone, there are nearly 20 firms in competition. What has changed, though, is the number of firms producing cars in this country. But as shown earlier, this substitution of imports for small domestic companies preceded the period of regulation by more than a decade, beginning in the early to mid-1950's.

Since the early 1970's, there have been some shifts in market shares for passenger cars due to increased consumer demand for more fuel efficient vehicles (predominantly imports) and because of the effects of domestic corporate strategies. As shown in Figure III-3, GM has increased its share while Ford, AMC, and Chrysler have all suffered declines. But the biggest change has occurred in the imports' share - rising from

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TABLE III-3

Competition in the U.S. Automobile Market

Firm	Subcompact Market Share (Percent)*
General Motors	17.9
Ford	16.1
Toyota	14.2
Datsun	10.9
Chrysler	10.0
Volkswagen	9.6
Honda	8.8
Subaru	3.3
Mazda	2.4
Fiat	1.9
British Leyland	1.5
BMW	1.0
American Motors	0.8
Renault	0.5
Saab	0.5
Alfa Romeo	0.2
Lancia	0.1
Others	0.3
	100.0

Plus firms selling in other market classes:
- Volvo
- Mercedes
- Peugeot
- Checker

* for 1978

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15 percent of sales in 1974 to over 22 percent in the first 8 months of 1979. For the imports, most of the gain can be linked to the oil shortages -- first in 1974 and again in 1979. Having the most fuel efficient cars, they were in the best position to respond to consumers' demands for greater mileage. For the domestic companies, GM's share has most likely increased (while the others' has declined) because, through shrewd marketing, they have correctly assessed and responded to trends more often than their competitors (e.g., the mid-1979 introduction of their compact 1980 model year "X" body cars). Relating the changes in market share only to regulations ignores the trends over the past 2 decades, as well as the effects of corporate strategies. The timing of new model introductions, as well as the consumer acceptance of those models, continually results in adjustments to market share.

Corporate strategies are also reflected in the companies' shares of light truck sales. Since most of the same companies that produce cars also produce light trucks, corporate profitability is affected by the strategies employed in both areas, simultaneously. Table III-4, shows the market shares and sales volumes for trucks under 10,000 GVWR.

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TABLE III-4

Domestic Truck Sales and Market Shares
(GVWR ≤ 10,000 lbs.)

Year	Total Sales (Millions)	Market Share * (Percent)			
		GM	Ford	Chrysler	American Motors
1970	1.3	37	40	13	4
1971	1.6	47	33	12	3
1972	1.9	41	34	15	4
1973	2.4	44	33	14	4
1974	2.1	43	31	18	5
1975	1.8	43	31	17	6
1976	2.4	46	30	18	5
1977	2.8	44	35	16	4
1978	3.0	43	40	11	5

*Does not add to 100% because of sales by International Harvester, etc.

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As can be seen in the Table, light duty trucks constitute a rapidly growing market -- more than doubling in sales during the last 8 years. This represents a compound growth factor of 11 percent per year. And since these vehicles are more expensive than passenger cars, with higher per unit profit volumes, a manufacturer can improve its financial health by selling more of these vehicles. This is precisely the strategy American Motors has chosen to follow, increasing its truck and utility vehicle sales from 50,000 in 1970 to 100,000 in 1975 to 150,000 in 1978. Thus, an examination of passenger car trends, without looking at the truck market, does not reflect corporate strategies, the effects of regulations, profitability, or any other aspect of corporate enterprise. And as can be seen from Table III-4, the smaller companies' market shares -- of a rapidly growing, profitable market -- have been holding relatively steady (except for 1978 when Chrysler suffered a supplier strike, delaying for several months the introduction of a new model van).

E. Financial Status

Tables III-5 and III-6 and Figure III-6 illustrate the revenue and profit picture of the four domestic companies. Except for Chrysler in 1978-79, sales revenues have been increasing rapidly. GM's revenue has doubled since 1974, Ford's has increased 80 percent, and American Motors' 10 percent. Chrysler's had increased 55 percent from 1974-77 but has since declined.

The profit picture is also interesting. Here, GM profits have nearly quadrupled in the last 4 years, as have Ford's. American Motors has had

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TABLE III-5

BIG FOUR HISTORICAL SALES

(Dollars in billions)

Year	GM	FORD	CHRYSLER	AMC
1979 (6 mos.)	$36.88	$24.49	$ 6.46	$1.57
1978	63.22	42.78	13.62	2.23
1977	54.96	37.84	16.71	2.23
1976	47.18	28.83	15.54	2.31
1975	35.72	24.01	11.59	2.28
1974	31.55	23.62	10.86	2.00
1973	35.79	23.01	11.67	1.74
1972	30.43	20.19	9.64	1.40
1971	28.26	16.43	7.89	1.23
1970	18.75*	14.98	6.88	1.09
1969	24.30	14.75	6.94	.74
1968	22.96	14.07	7.45	.76
1967	20.03	10.51	6.21	.78
1966	20.21	12.24	5.56	.87
1965	20.73	11.54	5.29	.99
1964	16.99	9.67	4.29	1.01
1963	16.49	8.74	3.50	1.13
1962	14.64	8.09	2.38	1.06
1961	11.39	6.71	2.13	.87
1960	12.74	6.79	3.01	1.06

*UAW STRIKE

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TABLE III-6

BIG FOUR HISTORICAL PROFITS

(Dollars in millions)

Year	GM	FORD	CHRYSLER	AMC
1979 (6 mos)	$2,445.2	$1,107.2	$(273.5)	$40.2
1978	3,507.8	1,588.9	(205)	41.6
1977	3,337.5	1,672.8	163	8.3
1976	2,902.8	983.1	423	(46)
1975	1,151.1	322.7	(260)	(27.5)
1974	950.1	360.9	(52)	27.5
1973	2,398.1	906.5	255	85.9
1972	2,162.7	870.0	220	30.2
1971	1,935.7	656.7	84	10.2
1970	609.1*	515.7	(8)	(56.2)
1969	1,710.0	546.5	99	4.9
1968	1,730.0	626.6	290.7	11.7
1967	1,627.3	84.0	200.4	(70.5)
1966	1,793.4	621.0	189.2	(15.8)
1965	2,125.6	703.0	233.4	5.2
1964	1,734.8	505.6	213.7	26.2
1963	1,591.8	488.5	161.6	37.8
1962	1,459.1	480.7	65.4	34.2
1961	892.8	409.6	11.1	23.6
1960	959.0	427.9	32.1	48.2

*UAW STRIKE

NOTE: Parentheses () indicate a loss for that year.

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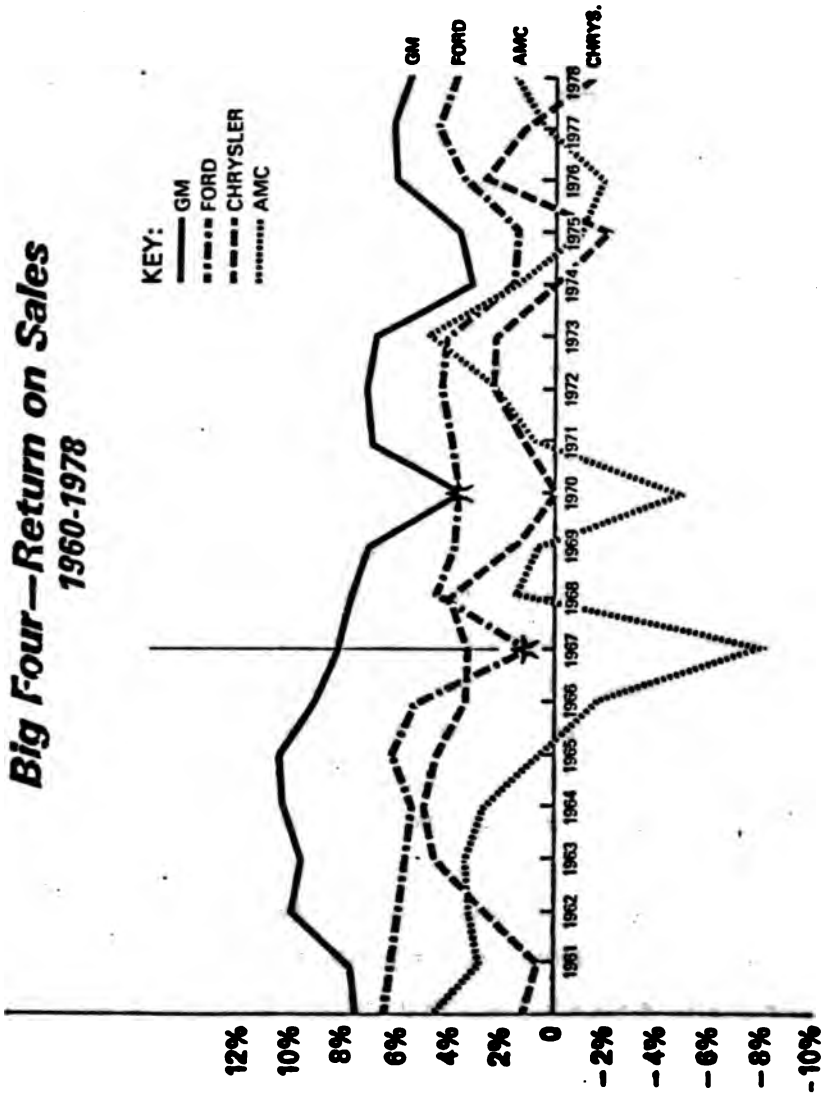
FIGURE III-6



NOTE: Line at 1967 indicates beginning of regulation. Stars indicate UAW strikes.

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11 consecutive profitable quarters. Chrysler, on the other hand, has shown large losses the past 2 years.

Even in real terms (constant buying power), 1977-78 were record years for Ford and 1976-78 represent three of GM's best 4 years. For American Motors, 1979 may be its second most profitable year in 2 decades. Both sales revenue and profits have been outpacing inflation for the automobile manufacturers.

But return on sales, one measure of operating efficiency, has been declining. Although most of the decline since 1960 had taken place prior to the initiation of regulations in 1966-67, it is clear that this decline has been steady. Of concern to several companies, particularly Ford, is that North American operations are declining in profitability while overseas operations are flourishing. As a point of reference, GM earned only 11 percent of its 1978 profits overseas while the corresponding number for Ford was 44 percent. Recent news articles speculate that Ford may actually lose money in its North American operations this year.

From the above, three major conclusions can be drawn:

1. Annual dollar sales and profits for all of the companies have increased several fold since 1960. Business growth and inflation are responsible for this increase, with real growth (i.e., in constant dollars) doubling in the last 2 decades.

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2. Industry profit margins have been steadily declining since the early 1960's. Chrysler, in particular, has suffered a severe, if erratic decline in profit margins. This declining trend has been continuous since 1964, well before the first Federal standards took effect in 1968.

3. Although margins have not increased, absolute profits have, providing GM, Ford, and American Motors (AMC) with their most profitable years (in terms of buying power of a dollar) in decades.

F. Summary

The foregoing discussion illustrated that the small number of domestic firms and the market dominance of GM and Ford were established decades ago. While the "industry" is relatively healthy, Chrysler, is not. American Motors, choosing not to compete head to head with its larger competitors, has carved a niche for itself in the small car and light duty truck markets, and has returned to profitability. Aside from Chrysler, profits for all the other domestic companies have been increasing, even in terms of real purchasing power, but profit margins have been either steady or declining. North American operations, according to Ford, are much less profitable than overseas operations, probably because of the rapid growth in passenger car sales overseas

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(8-10 percent, annually) compared to the rather mature car industry here (only 2-3 percent annual increases). The most profitable and growing market in the U.S. has been light duty trucks (except during periods of energy shortages) -- increasing at a rate of 10 percent per year for the past decade.

The questions, of course, are why is Chysler not sharing in the growing profits and what is the reason for this industry anomaly? These are addressed in the next chapter.

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IV. THE EFFECTS OF REGULATION -- FACTS AND MYTHS

A. Introduction

In this chapter, the argument that automobile regulation has adversely affected smaller companies is examined in detail. The arguments that have been made are first discussed, followed by an analysis of their va dity. This chapter of the report focusses on Chrysler Corporation because the most written material -- by way of example -- exists on the relation between regulations and Chrysler's financial health.

B. The Criticisms of Regulation

Put simply, it is claimed that regulations are destroying competition in the automobile industry by creating an atmosphere where only the largest firms can survive. This occurs, it is argued, because regulations require large, equal, compliance costs for all companies; and, because the larger companies spread their costs over a higher production volume, they gain an advantage over their smaller competitors. By having fewer vehicles over which to allocate their compliance costs, the smaller companies, such as Chrysler, claim they either have to meet their competitors' lower prices and accept less profit per vehicle sold, or maintain their profit margins by charging more than their competitors but lose sales because of their higher vehicle prices.

A few examples illustrate the point.

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In its Report to Shareholders last June[1] Chrysler claimed that regulations "substantially weaken the smaller companies relative to their larger competitors. Since Chrysler is the smallest of the full-line automotive producers, it has been harmed the most." The Report went on to illustrate three ways in which regulations were said to work against smaller companies:

1. "They impose essentially equal burdens on all companies. Since the smaller company has less (sic) units over which to spread its costs, it must bear a heavier per unit cost than its larger competitors."

2. "(R)egulations require huge capital expenditures. The smaller company, with its more limited financial resources and less access to lower cost capital markets, is further penalized."

3. "(T)he smaller company must devote a greater part of its more limited personnel and technical resources to meeting the regulations, thus leaving little for use in developing the unique competitive edge so vital to success and growth."

These are the three main criticisms leveled at regulations. They have been made in various forms by different groups but the above three items are the crux of the allegations.

1 Report to Shareholders, Chrysler Corporation, July 31, 1979

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Although each of the above points will be addressed in turn, others have also expressed views supporting the above arguments:

> "It's now generally accepted by everyone who has studied the situation that Government regulations have hit Chrysler a lot harder than they've hit the bigger manufacturers."[2]

> "At present, government regulations give the larger manufacturer a very substantial competitive advantage in the marketplace, not because it is more efficient, but simply because it is larger."[3]

> "The ability to raise the capital required to finance the necessary product changes mandated by government is one of the difficult problems facing smaller manufacturers."[4]

2 Statement by John Riccardo, Chairman of the Board, Chrysler Corporation, at a Press Conference, Detroit, Michigan, July 31, 1979

3 Is Government Assistance to Chrysler Consistent with the Workings of a Free Marketplace, Chrysler Corporation, August 1979

4 Comments on NHTSA Preliminary Report, The Contributions of Automobile Regulations, by American Motors Corporation, July 1978

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"Federal regulations . . . have been assumed to be proportional in their effects on individual auto firms . . . . This study demonstrates that in the case of the auto industry this assumption is incorrect, and that as a rule regulatory design has hurt the smaller firms more than the larger firms."[5]

"The regulatory process and pace are accelerating structural changes in the automotive industry, largely by magnifying traditional economies of financial scale. This is likely to lead to an increasing concentration of market share by one or two of the largest companies." [6]

"(W)e are gradually realizing that the regulatory burden hurts small firms worse than big ones."[7]

As can be seen, these views on the effects of regulations on smaller companies come from many sources, and not just Chrysler. Other automobile companies, consultants, and editorials from nationally read newspapers, among others, have made similar claims.

.....

5 The Impact of Government Regulations on Competition in the U.S. Automobile Industry, H. C. Wainwright and Company Economics, May 1979

6 Corporate Strategies of the Automobile Manufacturers, Harbridge House, Inc., November 1978

7 WALL STREET JOURNAL editorial, June 13, 1979

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Although Chrysler claims that "no one disputes the fact that Government has imposed a greater proportional burden on Chrysler than on its larger competitors,"[8] there are many who believe that though regulations may be an added responsibility, they are so in an even-handed manner. The following quotes are included not to prove that regulations do not have differential effects by company size, but only to show that there are other views, from organizations of equal stature as those quoted above.

> "Technological improvements to increase automotive fuel economy will have a relatively neutral impact on competition in the industry."[9]

> "And I don't think it (regulation) gives us (GM) any advantage and Chrysler any disadvantage."[10]

> "Of course, the idea that government regulation has been a major culprit [of Chrysler's current cash flow problem] is ridiculous."[11]

8 Is Government Assistance to Chrysler Consistent with the Workings of a Free Marketplace, Chrysler Corporation, August 1979

9 Impact of Automotive Fuel Economy Standards on Competition in the Automotive Industry, A. T. Kearney, Inc., July 1978

10 Statement by Thomas A. Murphy, Chairman, General Motors Corporation as reported in the NEW YORK TIMES, August 3, 1979

11 Wall Street Auto Analyst, from the WALL STREET JOURNAL, August 3, 1979

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But even if regulations did adversely affect smaller firms, do they do so in the magnitude suggested by Chrysler?

"Other car companies, many of them smaller than Chrysler, are coping with mandated fuel economies, pollution standards, (etc.,). Why not Chrysler? Its problems have to be traced to the real source -- its managers."[12]

"These (regulations) are in truth only a secondary source of Chrysler's troubles . . . ."[13]

"If government would pay as much attention to helping General Motors compete world-wide as they do to help Chrysler, which is only the victim of mismanagement, then GM might be selling a lot more cars abroad." [14] (emphasis added)

"But Chrysler, with $16 billion in annual sales, is not a small company, and . . . much smaller companies are managing to live with the regulations."[15]

12 NEW YORK TIMES editorial, August 2, 1979

13 Robert J. Samuelson, WASHINGTON POST, August 14, 1979; reprint from the NATIONAL JOURNAL

14 Phil North, President, Tandy Corp., WALL STREET JOURNAL, September 17, 1979

15 Editorial, WASHINGTON POST, August 2, 1979

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"Since smaller companies have been able to meet the American mileage and pollution requirements that Chrysler says it found unmanageable, management seems to have a lot to do with its misfortune."[16]

". . . they had bad management going all the way back to Townsend."[17]

In summary, there are obviously differing views on whether there are differential effects of regulation by company size and on why Chrysler is in its current financial difficulty. The latter issue is essentially one of management vs. regulation and will be addressed in the next two sections of this chapter. This chapter consists first, of an analysis of the claimed differential effects of regulation, followed by an assessment of the claimed capital and R&D impacts of automotive regulation.

16 Editorial, NEW YORK TIMES, August 19, 1979

17 Douglas Fraser, President, United Auto Workers, NEW YORK TIMES, August 5, 1979

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C. The Chrysler Dilemma - Why?

"The cumulative effect of . . . regulations is to substantially weaken the smaller companies relative to their larger competitors. Since Chrysler is the smallest of the full-line automotive producers, it has been harmed the most."[18] "Chrysler Corporation faces a severe cash shortfall for the years 1979 and 1980. This shortfall is the result of a combination of several factors, including: . . . the heavy and disproportionate costs of government regulations. . ."[19]. These statements by Chrysler indicate that the corporation believes its present financial situation is significantly related to the effects of regulation. Yet, Chrysler also acknowledges its present problems are a result of the current economic downturn and the sudden shift to small cars. The question is, which of these factors have most influenced Chrysler's profitability? Have regulations been the culprit or are there other underlying causes for Chrysler's predicament? Just what is Chrysler's problem and why it has arisen are discussed below.

18 Report to Shareholders, Chrysler Corporation, July 31, 1979

19 Chrysler Corporation Proposal for Government Assistance, submitted to the Treasury Department, September 1979

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Chrysler's Problem

Succinctly, the corporation's problem is that it is cash poor -- it has too much money going out compared to what is coming in. To make matters worse, Chrysler has used up almost all its lines of credit, foreclosing the option to borrow further. The choices left are essentially spend less or obtain more income. Because its production plans are well advanced, Chrysler feels that to produce the cars of the future, it must generally maintain its planned spending levels. Hence, the Chrysler request for assistance from the Federal Government in obtaining additional revenue.

Cash Position

As of December 31, 1978, Chrysler's cash reserves totaled $522.8 million. This reserve consisted of cash, time deposits, and marketable securities.[20] By June 30, 1979, Chrysler's cash reserves stood at $253.3 million; a decline of $270.5 million over the 6-month period.[21] Chrysler requires about $30-50 million a day to conduct its operations.

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20 Chrysler Corporation, SEC Form 10-K for the Year Ended December 31, 1979

21 Chrysler Corporation - Report to Shareholders for the six months ended June 30, 1979, p.6

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Clearly, the company's cash position is precarious. As Chrysler itself agrees, it has been severely hurt by the recent decline in automobile and truck sales. This was reflected in the huge build-up of unsold inventories -- the makeup of which was primarily the larger, less fuel efficient vehicles -- the same ones which are the most profitable and hence generate the most cash. The corporation's stockpile alone stood at 80,000 cars and trucks in August 1979, representing an investment of $700 million and costing Chrysler $2 million per week in storage and carrying costs. Unsold dealer inventories at the beginning of August accounted for another 350,000 vehicles.

Chrysler's huge inventory of unsold cars was unique in an industry that normally builds cars only to dealer orders. General Motors and Ford build vehicles only upon demand by their dealers, either for showroom and dealer inventory use or to fill customers' orders. By doing this, the companies are immediately paid as the cars roll off the assembly line. Chrysler, on the other hand, has been building cars for inventory purposes as opposed to dealer orders. Chrysler has been adhering to this practice since the 1960's as a means to store cars in slow periods and quickly take advantage of anticipated market surges. Although this procedure worked for a while, it started to backfire during the early 1970's when sales growth was low. In the recession of 1975, Chrysler had a backlog of 60,000 cars in its "sales bank" and at that time the company stated they would abandon this

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process and "wouldn't fall in the soup again."[22] Yet the practice was continued and Chrysler again found production far ahead of sales, and the sales bank reached 110,000 units in June 1979.

Just recently, Chrysler announced that it would not adhere to its traditional building style - build first then fill orders - and will begin a "build-to-order" process for upcoming model years. "We will build cars to dealer orders. If the orders aren't there, we won't build the cars."[23]

The net effect of the inventory build-up has been a severe erosion of corporate liquidity, i.e., the ability to cover short-term obligations. The cash drain resulting from inventory build-up takes several forms:

- Unrealized Revenue - Unsold inventory brings no cash into the business At the same time, cash is continually flowing out of the business to meet current obligations, interest payments, capital investment requirements, and other expenses.

- Inventory Carrying Costs - Unsold inventory must be stored. In the case of corporate inventory, storage will likely be on a public lot for which the company must either pay rent or secure a loan.

22 John J. Riccardo, Chairman, Chrysler Corporation; from the WALL STREET JOURNAL, August 31, 1979

23 Gar F. Laux, Executive Vice-President for Sales and Marketing, Chrysler Corporation; from the WALL STREET JOURNAL, August 31, 1979

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Inventory is also held by the dealerships. Dealer inventory is usually financed by an automaker's financing subsidiary; in this case, Chrysler Financial Corporation. Under such an arrangement, the financing subsidiary pays the factory for the vehicles shipped to the dealer. The dealer, in turn, holds the inventory in trust for the financing subsidiary.

The sales bank contributed to Chrysler's poor cash-flow situation. The company also points to the current recession which has reduced automobile demand. However, this reduction is really more one of change from an anticipated 1979 level than one of change from last year's level. Total domestic January-August passenger car sales are down only 8 percent from 1978 (although Chrysler's share was down 16 percent) and these figures do not include September sales which were high due to dealer and consumer rebate programs. Although the industry is highly affected by recessions (see Chapter III), the problem in 1979 really centers on Chrysler's other point -- "the drastic and sudden shift in the market away from the more profitable commercial vehicles."[24]

What has happened in 1979 is that consumers have unexpectedly demanded more fuel efficient vehicles. For example, while total sales (including imports) are down less than 4 percent, subcompact sales are up 57 percent! Demand for smaller cars, the result of higher gasoline prices and perceived fuel shortages, cuts back on company profits because of the

24 Chrysler Corporation - Report to Shareholders for the six months ended June 30, 1979, p.6

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smaller amounts of revenue generated by these vehicles, thus exacerbating Chrysler's cash-flow problem.

But the above are relatively new phenomena and do not adequately explain several previous poor financial positions for Chrysler. Also, as they affected all companies, they do not explain why Chrysler alone would be so adversely affected. This issue is addressed in the next section.

Chrysler Strategies

In order to fully understand the Chrysler Corporation of today, it is necessary to understand the historical strategies leading and influencing the company. It is important to grasp these historical movements made by Chrysler in order to assess the company's current economic and market position. The following, taken from a recent report on the historical strategies of the automobile companies, [25] specifically outlines the movements foregoing the modern-day Chrysler, of particular note are Chrysler's reliance on debt financing, before regulations took effect, and their late entry into the overseas market.

- Between 1949 and 1953 Chrysler had no funded debt and maintained a rate of dividend payout which averaged about 65 percent of earnings

25 Corporate Strategies of the Automotive Manufacturers, Volume 1, Strategies Histories, Harbridge House, Inc., June 1978

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(identical to GM) Since then, Chrysler has chosen debt financing to raise the funds for a large portion of its new investments.

- Chrysler's revamped 1953 models resulted in poor market acceptance. By 1954 its market share had dropped from 20 to 13 percent -- a position never to be recovered.

- In the mid-1950's, Chrysler's passenger car divisions had nearly the same number of total dealer franchises as GM, even though Chrysler had only one-fourth the sales of GM. This plan was originally intended to maximize Plymouth sales; however, it resulted in smaller dealer margins as well as poor dealer-manufacturer relations.

- In 1957, Chrysler acquired its first substantial stake in an overseas subsidiary -- Simca. Subsequent operations did not yield the anticipated profits.

- In 1957, Chrysler's capital structure included 34 cents of funded debt for each dollar of shareholder's equity (GM = 5 cents; Ford = 9 cents; AMC = 5 cents) -- quite a difference from 1953.

- The initial success of small, imported cars in 1958 was not of great concern to Chrysler, since Chrysler, along with the other U.S. manufacturers, believed small cars were not suited to American driving conditions and the demand was limited.

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- In the late 1950's, Chrysler models became more distinguishable from each other and the wide variety of models offered approximated those of GM and Ford. By following these two companies, Chrysler moved into more direct competition with GM and Ford.

- In 1960, Chrysler's purchases from outside suppliers represented 60 percent of revenue, while in 1964 the purchases reached a low of 57 percent. However, this figure had increased by 1974 to 64 percent (GM = 52 percent, Ford = 62 percent).

- During 1961-1975, Chrysler's response to economic downturns in sales and earnings was to trim operating expenses in order to reduce breakeven levels; however, variable costs went up.

- In 1963, Chrysler acquired an additional 38 percent interest in Simca and in 1971, it acquired the remaining portion of the firm. Anticipated profits were still unrealized.

- In 1964 and 1965, Chrysler acquired two-thirds voting and nonvoting stock of Rootes, U.K. This proved to be a weak investment requiring the British government to step in and provide financial assistance.

- Toward the end of the 1960's, the economy was becoming increasingly unpredictable -- materials and money were in short supply. Despite the unstable situation, Chrysler increased its investment program in

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1968-1970, basing its decision on factors such as strong growth in population, rising incomes and improved highways. This decision, unfortunately, coincided with the 1969-70 recession.

- In the early 1970's, Chrysler's market position suffered from three ill-timed, (in retrospect) new model introductions:

  1. Restyled 1971 intermediate models (demand was swinging back toward full-size cars);

  2. New full-size 1974 models (coincided with Arab oil embargo and subsequent oil crisis, during which demand shifted to small cars);

  3. New 1975 intermediates (demand started swinging back to full-size cars).

- From 1976 to the present, Chrysler's debt-equity ratio has remained high for such a capital intensive business as auto manufacturing.

As can be seen, Chrysler increased its reliance on debt in the 1950's, well before the advent of automobile regulation. This heavy debt burden,* three to four times more than either GM or Ford, and even slightly more than AMC, has reduced Chrysler's ability to make capital investments and

*Debt burden as measured by the debt to equity ratio. For 1977, the ratios were: GM = 12 percent, Ford = 17 percent, Chrysler = 54 percent, AMC = 45 percent.

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has led Chrysler to greater reliance on purchases of equipment, rather than producing the equipment itself as do their larger competitors. In turn, profit margins for Chrysler are smaller since they must pay for the profits of their suppliers. As GM is the price leader, Chrysler cannot simply raise its prices above GM's (to maintain profit margins), as it could lose sales. In this situation, where a "price leader" exists, the result is the normal profit squeeze for a smaller company.

In addition, it can be seen that Chrysler experienced some unfortunate sales reactions to its new model introductions in this decade. Given their financial picture at the time, this only exacerbated their problems. Having fewer options than their larger competitors in terms of new product offerings, failure of a new model to be accepted by consumers hurts them to a greater degree. GM, for instance, with its wider diversity of model offerings in all size classes, as well as greater production capacity, is better able than Chrysler to withstand a downturn in a particular market segment. This situation is simply one of the risks of doing business. Chrysler itself acknowledges and accepts these risks, risks which result in situations where ". . . the most efficient manufacturer should prosper and the least efficient should not."[26]

The pressures of the marketplace and from competitors cannot be ignored. In a recent report on the corporate strategies of the auto companies,[27]

26 Is Government Assistance to Chrysler Consistent with the Workings of a Free Marketplace, Chrysler Corporation, August 1979

27 Corporate Strategies of the Automobile Manufacturers, Harbridge House, Inc., November 1978

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developed from company annual reports, speeches of corporate officials, trade publications, etc., and reviewed by company management, it was pointed out that from the mid-1950's to the present, Chrysler had antiquated plants and outdated machinery, a complacent and not highly dedicated dealer network, an excessive dispersion of engine production (i.e., too many different types of engines) precluding maximum economies of sale, shortcomings in production scheduling, lack of vertical integration, concentrating their marketing on blue-collar consumers, product identity deficiencies, a deteriorating reputation for reliability, heavy reliance on outside suppliers, increasing reliance on debt, weak overseas performance, low stock prices and untimely new model introductions.

As shown, Chrysler's financial dilemma had its origins many years ago. It began to rely heavily on debt financing and purchases from suppliers 20 years ago -- a decade before regulations began to be issued. Thus, to claim that regulations are primarily responsible for Chrysler's situation is to ignore many of the above facts.

D. Equal Burdens Per Company?

Having illustrated that factors other than regulation have at least contributed, if not caused, Chrysler's financial crisis, the first issue concerning the alleged uneven effects of regulation is addressed. This allegation, as stated on page IV-2, is:

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> "(Regulations) impose essentially equal burdens on all companies. Since the smaller company has less (sic) units over which to spread its costs, it must bear a heavier per unit cost than its competitors."

There are essentially two parts to this issue: (1) Compliance costs per company are equal and (2) the costs per unit are higher for the smaller companies. These can best be addressed by examining the examples Chrysler itself gives to make its point.

In one example, Chrysler supposes that it costs $200 million to develop an air bag restraint system.[28] Then, assuming relatively equal efficiency among manufacturers, it argues that if one manufacturer produces 5 million cars a year, it costs that company $40 per car to comply with the regulation ($200 million divided by 5 million cars). If a second company produces 1 million cars, it costs that firm $200 per vehicle. Thus, smaller firms are at a price disadvantage. Other, similar, examples are found in Chrysler's public statements.

But there are several fallacies in these examples. First, even if compliance costs were equal per company (a point returned to later), the examples are a gross simplification of complex pricing and amortization processes. First, fixed costs (i.e., investments in tooling, machinery, plants, and property) are not recovered through prices in 1 year. These investments

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28 Is Government Assistance to Chrysler Consistent with the Workings of a Free Marketplace, Chrysler Corporation, August 1979

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have lives of from 3-5 years for tooling, to 20 years for machinery, to 50 years for plants, to even longer periods for property. Assuming a more realistic life of these investments of, say, 10 years -- and using Chrysler's own numbers -- we would find that the $200 million investment would be spread over 50 million vehicles for the larger firm and over 10 million vehicles for the smaller firm. Although the proportional effect would be the same -- five to one -- the difference is no longer $200 per car vs. $40 per car, but now only $20 vs. $4, a much less significant difference.

In another example,[29] Chrysler also talks of air bag compliance costs. In this example, though, it is assumed that it costs $500 million to comply, with the large company (assumedly GM) again producing 5 million cars annually but the smaller one (assumedly Chrysler) now producing 2 million per year. Here, the compliance costs per vehicle, according to Chrysler, are $250 vs. $100. But again, spreading these costs over their economic life, any price difference drops to $25 vs. $10.

In both examples, it can be seen that any difference in consumer prices that may exist is overstated. Using the company's own examples, any differences which may exist would be in the range of tens of dollars, not hundreds of dollars. Thus, even if there were relatively different compliance costs, those differences would not be significant in the actual

29 Chrysler Corporation Proposal for Government Assistance, submitted to the Treasury Department, September 1979

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purchase decisions of consumers because the compliance costs are small relative to the full price of a vehicle (over $6,000).

But are compliance costs equal? There does not appear to be any information available which shows that this is true. Chrysler itself only offers hypothetical examples and states "It is impossible to quantify the precise amount of the penalty imposed on Chrysler without a detailed examination of the records of both companies (referring to GM), including required capital expenditures, higher piece costs, alternative investment and operational opportunities and many other factors. However, that is only a matter of degree."[30] As shown above, Chrysler overstates this degree by a factor of 10. But, the first fact to bear in mind is that if there is a differential compliance cost, its magnitude is unknown. Yet Chrysler has continually used examples that show GM having to charge only $340 per car to meet regulations but Chrysler having to charge $620 per car.[31] How, one might ask, is it possible to be so precise when "it is impossible to quantify the precise amount . . .?"

We agree with Chrysler that even if a penalty existed, it would be impossible to precisely quantify its magnitude. This occurs because accounting records are not kept for the costs of meeting regulations separately from the other books of a company. In addition, it is difficult to even estimate compliance costs themselves. For instance,

30 Is Government Assistance to Chrysler Consistent with the Workings of a Free Marketplace, Chrysler Corporation, August 1979

31 Report to Shareholders, Chrysler Corporation, July 31, 1979

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are the costs of downsizing solely related to fuel economy regulations, or somewhat also to consumer demand, competitive pressures, or the normal business expense of vehicle redesign? The issue is certainly complex.

But, Chrysler's comments notwithstanding, there is some information on compliance costs. In responding to various rulemaking dockets and reports, the automobile companies often supply estimated consumer price increases if the regulation were enacted. The Agency has examined its recent docket submissions, focussing on those of relatively greater significance and where responses on manufacturing costs or consumer prices were received from at least two companies. Table IV-1 presents the results of this search.

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TABLE IV -1

Consumer Price Increases Related to Regulations

Regulation	Date of Response	Consumer Price Increase ($/vehicle)		
		GM	Ford	Chrysler
Passenger Car Fuel Economy 1981-85 stds.	1/79	510	*	n/a
Comments on NHTSA Report, "The Contributions of Auto. Regs."			"Somewhat higher" than $666**	"Comparable" to $666**
Regulations through 1978	9/78	n/a		
Regulations from 1978-75	9/78	935	1300	1000
Phase II Bumper Regulation	8/77	9	10-11	"several dollars"

* Confidential but lower than GM's -- Chrysler could not or would not supply an estimate

** The $666 figure was a reference from a report on the costs of regulations by Murray Weidenbaum. Manufacturers did not supply detailed estimates of their own but only referred to a general agreement with the $666 figure.

NOTE: In addition, manufacturer supplied information on price increases associated with air bags, for the same relative production volumes, shows Ford's numbers slightly above GM's but Chrysler's being significantly below those of the larger firms.

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What Table IV-1 shows is a hodgepodge of estimated consumer price increases, as compared to the expected progression of higher prices for the smaller companies, due to past and future regulations. Although Chrysler charges that it faces a disproportionate burden, its independent comments to the Agency, when compared with those of other companies, do not reflect this difference. Chrysler's quoted price increases are instead similar to those of the other companies.

What the table does not indicate are the absence of responses and vague responses from the industry to rulemaking proposals. A process exists for the industry to inform and advise regulatory agencies on the possible financial effects of regulations on the company as well as consumers. Yet more often than not, such information has not been provided at all or not related to the particular regulation in question.

For instance, when proposing 1980-81 truck fuel economy standards, GM only stated that they were planning to spend $5 billion per year in the early 1980's but did not relate that to the particular standards being proposed. Ford provided more detail, while Chrysler simply stated that the Agency's capital investment level was "low." In another recent proposal related to trucks, to improve their safety through requiring collapsible steering columns and interior padding, neither GM nor Chrysler addressed the pricing question, while Ford provided detailed estimates. And during the spring of 1979, when the level of passenger car fuel economy standards was being reexamined, Ford and GM supplied NHTSA with requested information, but Chrysler, after repeated requests, did not supply any written information

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on its capital costs or price increases under the existing standards or for a lower level of standards. Yet, in a report commissioned by Chrysler (by H. C. Wainwright, Economics), it is claimed that lowering the standards would reduce "the regressive bias against Chrysler." This appears be a rather summary statement since Chrysler was not able to supply the Government with any estimate of the effects of lowered standards, even when repeatedly asked to do so.

In addition to the companies' own submissions to this Agency, NHTSA has, beginning in 1976, embarked on a program to evaluate its standards after they have been in effect. The purpose of this program is to determine whether the regulations are achieving their goals in actual use and to see whether they should be upgraded or revoked. As part of this program, the Agency has had independent contractors perform studies on the costs of regulatory compliance.

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The results of a recent contract[32] are shown in Table IV-2. Although the results are based on only a small sample, and are based only on variable (not capital) costs, they can be used for comparative purposes since a standard production cost estimating procedure was used for all tear-down analyses, regardless of manufacturer. As shown, there is certainly no indication that regulatory compliance (variable) costs vary directly by company size. For each of the two standards, Chrysler's compliance costs were actually the lowest of the three large manufacturers. Although only two standards are shown, these are generally acknowledged as two of the most expensive regulations already in existence. As can be seen, there is no such pattern as Chrysler alleges -- smaller companies paying more. Indeed, the only apparent pattern is that large cars have a higher variable compliance cost than smaller cars. Thus, a company's

32 Cost Evaluation for Four Federal Motor Vehicle Safety Standards, John Z. DeLorean Corporation, DOT hs-803-871, October 1978

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TABLE IV-2

Variable Costs of Regulatory Compliance

Company	Model*	Class	Percent of Volume	Variable Cost ($/vehicle)	Sales Wtd. Avg. Cost ($/vehicle)
Standard 214 -- Side Door Strength					
Chrysler	Valiant 2-dr.	Compact	14	$9.36	$12.82
	Fury 4-dr. HT	Standard	4	24.96	
Ford	Maverick 4-dr.	Compact	3	16.19	18.73
	Galaxie 4-dr.	Standard	20	19.11	
GM	Nova 2-dr.	Compact	7	13.45	17.52
	Caprice 4-dr.	Standard	8	21.08	
Standard 215 -- Exterior Protection (Bumpers)					
Chrysler	Valiant 2-dr.	Compact	14	26.68	23.94
	Fury 4-dr. HT	Standard	4	14.34	
Ford	Maverick 4-dr.	Compact	3	28.72	37.28
	Galaxie 4-dr.	Standard	20	38.56	
GM	Nova 2-dr.	Compact	7	25.06	25.62
	Caprice 4-dr.	Standard	8	26.12	

*Model Year 1973 Vehicles

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compliance costs will somewhat be a function of its sales mix; i.e., a sales mix where large cars predominate will require relatively higher variable compliance costs. Since Chrysler has the largest proportion of small cars of the Big Three, its compliance costs -- as measured by variable costs -- would be the lowest, not the highest as they claim. This observation is significant as Chrysler relies more heavily on variable costs than its competitors.

Of course, consumer price increases are only one measure of the effect of regulations. If, indeed, there are disporportionate effects by company size, then the smaller companies might have to meet the prices imposed by their larger competitors and have their profit margins reduced. However, when commenting on a proposed regulation, each company has been required, under the Justice Department antitrust consent decree, to independently submit their cost estimates. In fact, often the cost estimates are confidential and cannot be released publicly. Therefore, the smaller companies are not aware of estimated price changes by their larger competitors. Instead, what each company usually does is to convert its own estimate of changes in capital and variable manufacturing costs into a consumer price change. Thus, the estimates of price increases shown in Table IV-1 were independently derived and do not support the belief that there are disproportional effects of regulations.

Another measure of regulatory costs is changes in capital spending. This aspect can best be examined through looking at expenditures to improve vehicle fuel efficiency. Here, all parties, including the Government, admit that improving fleet fuel economy is an expensive proposition. Putting aside for the moment what the driving force behind such improvements is, i.e., the market or the regulations (see Chapter V), the

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need to make cars more fuel efficient, will, in the period 1979-84, increase capital investments by about 50 percent over historical levels. For the future, the cost to improve fuel economy far overshadows anything else. "The cost of developing air bags and of developing emission controls pale by comparison with the cost of meeting the 1980-85 fuel economy regulations."[33] The effect of improving fuel economy can best be analyzed through looking at the companies' future fixed costs. "These costs are the single most important source of differences (in impacts) among firms of different size."[34]

For the future then, any significant differential impact of regulations will arise because of the need to improve fuel economy. And that difference can best be measured by examining capital expenditures. On this point, all are in agreement. Table IV-3 shows several estimates of future capital expenditures to improve fuel economy. An examination of the table follows.

The Table shows that there have been several estimates of capital spending increases resulting from the fuel economy standards or from regulations in general. Although the estimates shown are in different years' economics and represent compliance by different classes of vehicles and for different time periods, one thing is quite clear -- any increases in capital spending

33 Is Government Assistance to Chrysler Consistent with the Workings of a Free Marketplace, Chrysler Corporation, August 1979

34 The Impact of Government Regulations on Competition in the U.S. Automobile Industry, H. C. Wainwright and Company Economics, May 1979

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TABLE IV-3

Increased Capital Expenditures To Improve Fuel Economy

Vehicle Time Period	Company	In $ of Year	Increased Capital Expenditures (In Billions)	Ratio (Ford = 1.0)
Cars and Trucks 1978-85[1, 3]	GM	1977	16.0	2.0
	Ford	1977	8.0	1.0
	Chrysler	1977	6.4	0.8
Cars and Trucks 1978-84[2, 3]	GM	1978	7.3	2.1
	Ford	1978	3.4	1.0
	Chrysler	1978	0.8	0.2
Cars and Trucks 1978-82[3, 4]	GM	Current	20.0	2.0
	Ford	Dollars	9.8	1.0
Passenger Cars[5] 1981-85	GM	N/A	6/	6/
	Ford			

1 From H. C. Wainwright Report, May 1979
2 From NHTSA Annual Fuel Economy Report to Congress, January 1979
3 Costs to meet all regulations
4 From Energy Conservation and the Passenger Car, Harbridge House, Inc., September 1979
5 Total (not incremental) capital expenditures
6 From confidential submissions to NHTSA on the reexamination of the 1981-85 fuel economy standards -- approximately 2.0 to 1.0 (GM to Ford).

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related to regulations are not equal among companies. Through the companies' own announced spending plans, through contractor studies, and through government analyses, one point is consistently made -- GM is spending more than Ford which is spending more than Chrysler. And even what is more obvious, is the constancy of the GM to Ford ratio -- 2.0. This ratio is almost identical to their market shares - 47 percent for GM and 23 percent for Ford.

But according to Chrysler's arguments, this should not be so. Chrysler does not argue that regulations require proportional capital investments; rather, they argue they "impose essentially equal burdens on all companies" (emphasis added).[35] Yet, if, as Chrysler and the other companies say, fuel economy regulations are the significant driving force in terms of increased capital expenditures, why are the investment levels proportionate and not equal?

Previous capital spending levels were also not equal among companies, as is shown in Table IV-4. These historical data indicate that capital expenditures were instead proportional to corporate size. This relationship holds true on a per unit basis also.

A more meaningful way to measure capital expenditures per vehicle is to divide the sum of amortization and depreciation of property, plant, and equipment by sales volume. Amortization and depreciation represents that portion of the acquisition cost (or book value) of capital assets that is

35 Report to Shareholders, Chrysler Corporation, July 31, 1979

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TABLE IV-4

Historical Capital Investments Per Vehicle Sold

	GM	Ford	Chrysler	AMC
1974				
Capital Investments*	2,541	1,451	467	95
Sales Volume (000's)**	5,320	3,730	1,782	457
Investment/Vehicle	478	389	262	208
1975				
Capital Investments	2,237	956	384	89
Sales Volume (000's)	5,253	3,033	1,585	314
Investment/Vehicle	426	315	242	283
1976				
Capital Investments	2,307	1,055	424	52
Sales Volume (ooo's)	6,933	3,556	2,134	350
Investment/Vehicle	333	297	199	149
1977				
Capital Investments	3,647	1,762	723	47
Sales Volume (000's)	7,422	4,368	2,057	359
Investment/Vehicle	491	403	351	131
1978				
Capital Investments	4,565	2,525	671	43
Sales Volume (000's)	7,731	4,493	1,957	457
Investment/Vehicle	590	562	343	94

*In millions of dollars; includes expenditures on property, plant, equipment, and special tools worldwide.
** North America only.

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TABLE IV-5

Historical Amortization and Depreciation Per Vehicle Sold

	GM	FORD	CHRYSLER	AMC
1974				
Depreciation	$ 846.6	$ 530.8	$ 131.0	$ 15.9
Amortization	858.4	392.7	124.0	23.7
Total D&A*	$1,750.0	$ 923.5	$ 255.0	$ 39.6
Sales Volume**	5.320	3.730	1.782	.457
D&A/Vehicle	$ 320.4	$ 247.5	$ 143.1	$ 86.7
1975				
Depreciation	$ 906.1	$ 583.8	$ 93.0	$ 19.3
Amortization	1180.1	453.3	149.0	35.2
Total D&A	$2,086.2	$1,019.1	$ 242.0	$ 54.5
Sales Volume	5.253	3.033	1.585	.314
D&A/Vehicle	$ 397.1	$ 336.0	$ 152.7	$173.6
1976				
Depreciation	$ 939.3	$ 589.7	$ 108.0	$ 23.4
Amortization	1296.9	431.0	229.0	39.8
Total D&A	$2,236.2	$1,020.7	$ 337.0	$ 63.2
Sales Volume	6.933	3.556	2.134	.35
D&A/Vehicle	$ 322.5	$ 287.0	$ 157.9	$180.6
1977				
Depreciation	$ 974.0	$ 628.7	$ 130.0	$ 20.9
Amortization	1406.4	487.7	190.0	40.3
Total D&A	$2,380.4	$1,116.4	$ 320.0	$ 61.2
Sales Volume	7.422	4.368	2.057	.359
D&A/Vehicle	$ 320.7	$ 255.9	$ 155.6	$ 170.5
1978				
Depreciation	$ 1180.6	$ 735.5	$ 154.0	$ 23.8
Amortization	1855.7	578.2	198.0	39.7
Total D&A	$3,036.3	$1,313.7	$ 352.0	$ 63.5
Sales Volume	7.731	4.493	1.947	.457
D&A/Vehicle	$ 392.7	$ 292.4	$ 179.9	$ 138.9

* Worldwide
** North America Only (in millions)

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TABLE IV-6

Capital Investments Related to Future Regulations

(1978-84)

	GM	Ford	Chrysler
Incremental Capital Investments* ($ billions)	7,300	3,400	800
Estimated Sales Volume (000)	48,460	28,010	12,630
Investment Per Vehicle	$ 151	$ 121	$ 63

*Investments above historical expenditure levels

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deducted from revenue as an expense during a given accounting year. As is shown by Table IV-5, the resulting values per vehicle are again roughly proportional to corporate size.

Table IV-6 shows that this relationship is likely to hold true for the incremental capital investments required to meet Federal regulations between now and 1985.

Thus, both in the past and for the future, capital investments, whether related to regulatory compliance or not, have been proportional to corporate size and have not been equal for all companies, as claimed by Chrysler.

Why does this violation of the apparent conventional wisdom exist? Many people believe, as shown in the first part of this chapter, that investment should be equal per company, not proportional to sales. But a recent report, commissioned by GM, supports the NHTSA analyses shown above and states that "capital investment requirements in a period of intensive product development and change should tend to weigh more heavily on the smallest

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companies. This, however, does not seem to be reflected in the actual behavior of the automakers."[36]

The report states that this occurs for several reasons:

1. Larger firms have more varieties of components to change; thus, their total investment costs are much higher. This is a key point in the rebuttal of Chrysler's argument. As illustrated previously, investment (compliance) costs per company are not equal. But, compliance costs for a particular component or model may be.

2. Smaller companies are not as vertically integrated as their competitors and thus purchase many components instead of producing them themselves. This reduces investment requirements but also reduces profit margins (because of the higher variable costs).

3. Through cost-saving manufacturing moves, such as interchangeable components and fewer dies, a smaller company can make it appear, through exterior cosmetic changes, that it is producing a new vehicle when indeed it is not.

For example, everything else being equal, it is logical to assume that it would cost Chrysler the same as GM to revamp an engine line to meet new

36 Energy Conservation and the Passenger Car, An Assessment of Existing Public Policy, Harbridge House, Inc., September 1979

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emission standards. In this case, capital costs per engine line may be equal.

But, the larger companies have more engine lines than the smaller ones. An examination of the AUTOMOTIVE NEWS 1979 Market Data Book, shows that AMC and Chrysler vehicles came equipped with only 4 possible engines, Ford offered 7 different engines, while GM had 19 available for sale. In addition, in 1978, AMC had 13 models (of cars) available, Chrysler had 42, Ford 66, but GM had 138. Similar numbers exist for transmission lines. Essentially, it may cost each company the same to provide a collapsible steering column for each model car it produces or to build a new automatic transmission line, but the larger firms have many more models and engine and transmission lines; hence, their total capital compliance costs are proportionately greater than those for the smaller firms.

Also, it should be borne in mind that economies of scale in the auto industry occur at production levels much lower than those of General Motors. Chrysler, too, enjoys economies of scale in its production facilities. Automobile engine and transmission lines, for example, have an annual capacity of 300,000 to 500,000 units. Thus, under normal operating conditions, a single engine line can produce nearly 500,000 engines per year.

Assume, by way of illustration, that a regulation requires that a new engine be built to meet an emission or fuel economy standard. Also, it can be assumed that GM sells 5 million cars per year and Chysler roughly 1 million (actual 1978 registrations were 5.22 million for GM and

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1.11 million for Chrysler). If each company designed and produced the exact same engine, it is quite logical to assume that the development and production costs are equal for each firm for each line. However, because of GM's larger sales volume, it requires 10 engine lines -- if annual capacity is 500,000 units -- while, Chrysler would need only 2. Thus, Chrysler's capital investments, although equal with GM's to produce a single line, are, in total, only one-fifth of GM's. Both firms would be operating each line in the most efficient manner -- at capacity -- but GM would need five times as many lines and have to incur five times as much costs. But investments per car would be equal for the two companies. This is the situation shown by examining actual data -- not the one where total costs are essentially equal, as is claimed.

E. Do Regulations Require Huge Capital Expenditures?

The second reason that regulations are claimed to adversely affect smaller companies relates to the "huge capital expenditures" necessitated by regulations and the greater difficulty and higher costs experienced by smaller companies in raising the necessary funds for compliance.

It is very doubtful that already effective regulations require large capital investments. In an attempt to prove that every facet of an automobile is affected by regulations, the Wainwright Report, commissioned by Chrysler, states that standards include those for "windshield wipers and washers, tires, head restraints, seat belts, bumpers, and the types of hub

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caps which may be offered on new cars."[37] Which of these, one might ask -- and not rhetorically -- require "huge capital expenditures?" Tires and seat belts are purchased from outside suppliers, the cost of head restraints and bumpers are largely reflected in increased material costs (although some one-time redesign and tooling was probably required due to bumper standards), leaving windshield washers and hubcaps. Are there large capital requirements for these -- or even for any of the other 40-50 existing safety standards? We think not. To argue that "each of these regulations (many of which were issued in the late 1960's) involves extensive fixed costs . . ."[38] is totally without foundation. Although "extensive" and "huge" are relative terms, any capital requirements for meeting past safety standards are no doubt small when compared to the industry's total historical capital spending levels of $3.5 billion per year.

To support this view, one need only examine Chrysler's own statements. Much of the controversy over air bags surrounds their cost. Placing an air bag in a car -- although not required by the automatic protection standard (since it only specifies performance levels, and automatic belts or other devices may be used) -- would result in the largest price increase

37 & 38 The Impact of Government Regulations on Competition in the U.S. Automobile Industry, H. C. Wainwright and Company Economics, May 1979

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related to a safety standard. Yet Chrysler itself states that "other government regulations will cause even bigger gaps in manufacturers' per unit costs, because they are more costly to meet overall . . . (e.g., emissions) . . (and) both the cost of developing air bags and of developing emissions controls pale by comparision with the cost of meeting . . . fuel economy regulations."[39]

If improving fuel economy requires "huge" capital expenditures -- a point on which all parties seem to agree -- and if air bag and emission costs "pale" by comparison, it seems logical to conclude that those latter items, by themselves, may not require "huge" capital expenditures. NHTSA estimated that the industry's capital investments for air bags would be only $30 million annually[40] compared to $1.4 billion per year[41] for fuel economy and other regulations. And the air bag capital investment estimate was based on a much higher percentage of cars being equipped with air bags, as compared to automatic belts, as now seems to be the case. Thus, at most, air bag capital costs would amount to two percent of incremental capital costs and only about one to two percent of total annual capital investments by the industry. Surely, they do not constitute

39 Is Government Assistance to Chrysler Consistent with the Workings of a Free Marketplace, Chrysler Corporation, August 1979

40 Economic Impact Statement, Amendment to FMVSS 208, NHTSA, July 1977

41 Third Annual Report to Congress on the Automobile Fuel Economy Program, NHTSA, Jaunary 1979

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a "huge capital investment." Although one may argue over the accuracy of the numbers, their order of magnitude difference is not in dispute.

To continue the logic of the argument, if improved fuel economy requires "huge" investments, it is hard to argue that air bags, which will likely be installed in only a small percentage of new cars, and which require only two percent of that investment level, also require "huge" investments. And, if air bags costs far overshadow the cost of other safety standards, as is alleged, then certainly each of those other standards could not, by any stretch of the imagination, require "extensive fixed costs." The Agency is not aware of <u>any</u> information supporting the claim that each regulation requires massive capital investments, and flatly rejects the validity of that claim.

Thus, <u>past</u> regulations, those in effect from 1967-79, have not had the effect that Chrysler argues. However, future regulations, especially fuel economy ones, present a different picture. In the period 1979-85, capital investments are expected to increase by about 50 percent over the historical levels of the past decade. But, as discussed in more detail in Chapter V, the cause of these expenditure increases is not clear. It is a simple solution to relate any increase in fixed costs to regulations. However, there are logical arguments why this affixing of blame is less than accurate.

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Basically, it is agreed that improving fuel economy will require significantly higher spending levels. Some of this increase, or at least the timing of it, is probably related to regulations. Some other portion is no doubt related to competitive pressures. And a third portion, in what now appears to be the dominant part, is caused by market demand. These three factors -- regulations, competitive pressures, and market demands -- are driving investment patterns. To assume that only one of them -- regulation -- is the sole factor, cannot be supported, especially in terms of consumer reaction to fuel prices and shortages and industry statements that the market is now demanding greater fuel economy than is required by the fuel economy standards.

It is also alleged that it is more difficult for smaller firms to raise the necessary funds to invest. We believe there is confusion between financial profitability and size of a firm.

Chrysler argues that, because of its smaller size, its cost of investment capital is higher than that of GM and Ford. But, there does not appear to be any clear relationship between a company's size and its attractiveness as an investment. A review of the Standard's and Poor's (S&P) quality ratings for senior unsecured debt (i.e., sinking fund debentures) for different automotive related companies illustrates this point:

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TABLE IV-7

Automotive Industry Financial Health

Company	Total Assets (1979)	S&P Quality Rating
GM	$34,400	AAA
Ford	24,700	AAA
Chrysler	7,000	B
AMC	1,000	B
International Harvester	4,800	BBB
TRW	2,500	A
Eaton	2,300	A
Bendix	2,300	A
PACCAR	700	A
Federal Mogul	400	A

The S&P quality rating in this case attempts to measure the security of a corporation's senior unsecured debt. As is readily apparent from Table IV-7, Chrysler debt is less secure than that of several of the smaller firms cited above. A full examination of such ratings, regardless of which industry is analyzed, will show that ratings (and cost of borrowing) are a function of financial health (usually measured by profitability and debt ratios) and <u>not</u> a function of corporate size.

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Undoubtedly, the high perceived risk of Chrysler debt will result in higher interest on new debt. Generally, investors demand a higher return on high risk investments than for those with lower risk.

In a business such as automotive manufacturing, the volatile nature of earnings requires a judicious use of debt, since interest must be paid regardless of earnings levels. Therefore, heavy use of debt by an auto company is likely to increase the perceived risk in the eyes of the investor. Chrysler and AMC employ approximately the same degree of leverage (i.e., use of debt) in their respective capital structure - as shown by the debt/equity ratios cited elsewhere in this report. Coincident with their similar debt/equity ratios are their similar S&P quality ratings for senior unsecured debt (B in both cases). This indicates that extensive use of financial leverage by an auto company will increase investment risk and, therefore, its cost of capital.

Debt Position

Chrysler has used debt extensively since the late 1950's to finance business expansion. The role of debt in Chrysler's financial structure is best understood by comparing debt to the firm's total financing mix. Typically, business investments are financed in three ways: borrowing money (debt), issuing shares of stock, reinvesting earnings that are not distributed as dividends, or any combination of the three. Capital stock and retained earnings together comprise the shareholders' or owners' equity in the business.

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The importance of debt in a firm's financial structure can be measured by the ratio of Total Debt to Total Owner's Equity. For Chrysler Corporation, this ratio is 55 percent as of June 30, 1979. A comparision of the historical Debt to Equity Ratios of Chrysler to those of GM and Ford is shown below:

TABLE IV-8

Total Debt/Total Equity*

Year	Chrysler	GM	Ford	AMC
1977	54%	12%	17%	45%
1976	46%	12%	20%	56%
1975	51%	14%	24%	54%
1974	64%	11%	23%	21%
1973	49%	11%	15%	19%
1972	40%	11%	17%	38%
1971	49%	10%	14%	32%

* Based on Balance Sheets provided in corporate annual reports and Moody's Industrial Manual 1978. All numbers are rounded to the nearest one percent.

If this ratio is high, then a company has resorted to a heavy use of debt to finance business investment. In the auto industry, extensive debt

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financing can be dangerous. Vehicle sales fluctuate up or down with the economy and, consequently, so do auto industry profits. Yet interest charges on debt must be paid regardless of the profit picture. Interest charges are deducted from pre-tax profit to determine taxable income.

In the case of Chrysler, interest charges have accounted for significant drains from income before income taxes:

CHRYSLER CORPORATION
($ x 1 million)

	1978	1977	1976	1975	1974
Net Interest Charges	$128.9	$74.9	$76.1	$99.0	$52.5

For 1978, Chrysler would have had to generate a pre-tax profit of $128.9 million just to cover interest charges. However, the company lost $285.8 million in 1978 before a tax credit of $81.2 million was applied. A sharp increase in net sales would be required for Chrysler to break even after interest coverage. Such a sales increase does not appear likely in the near future as Chrysler lost $207.1 million in the first half of 1979.

The decision to use debt financing quite properly rests with the management of a firm. NHTSA is in no position to pass judgment as to whether Chrysler's heavy use of debt is right or wrong. At the same time the

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Agency does not accept the view that regulatory actions are responsible for Chrysler's debt position. Data provided elsewhere in this report reveal that:

1. Up to 1953, Chrysler had no funded debt.
2. By 1957, Chrysler's capital structure included 34 cents of funded debt for every dollar of equity. At that time, funded debt per dollar of equity for GM, Ford, and AMC was 5 cents, 9 cents, and 5 cents, respectively.

Clearly, debt was a significant financing tool for Chrysler well before the onset of federal automotive regulations in 1966.

Summarizing then, prior regulations have had little effect on capital expenditures, contrary to assertions that the opposite has occurred. In the future, investments will increase but not all of that increase can be ascribed to regulations and it is difficult to ascribe what portion can.

F. Do Regulations Require A Larger Part of a Small Company's Resources To Be Devoted To Their Attainment?

Chrysler's third point is that smaller companies must devote a greater part of their more limited personnel and technical resources to meeting regulations, thus leaving little for use in developing competitive

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marketing improvements and manufacturing efficiencies. However, it would be misleading if this point is considered out of context. The significance of this problem, as well as the role regulation plays in it, appears to be exaggerated.

To begin with, research and development expenditures are only a small part of the overall cost of doing business. Generally, research and development budgets run between 1.5 - 3.5 percent of net sales revenue. (See Table IV-9.)

Of the total R&D budget, only part can be associated directly with federal regulations. The only publicly available figures that break out this cost are those from General Motors' latest 10-K report to the Securities and Exchange Commission. This indicates that in 1978, GM spent about 40 percent of its total R&D budget on federal safety and emission regulations. GM is the largest and most diverse of the automobile companies. It has a much larger selection of engines, transmissions, vehicle models, etc., and all combinations of final products must meet existing standards. Thus, it requires a diverse R&D program -- perhaps more so than its competitors.

Fuel economy regulations are also considered to be a significant drain on R&D budgets; however, actions taken by companies to develop more fuel efficient automobiles cannot be attributed solely to federal regulation. With rising gasoline prices, consumer demand has increased for such vehicles and companies would be making these investments, although perhaps at a different pace, even without fuel economy regulations.

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TABLE IV-9

R&D Expenditures*
(As a Percent of Net Sales Revenue)

Year	GM	FORD	CHRYSLER	AMC
1954	2.1	2.1	2.1	2.1
1957	2.1	2.1	2.1	2.1
1960	2.3	2.3	2.3	2.3
1963	2.5	2.5	2.5	2.5
1966	2.4	2.3	2.4	2.4
1967	2.5	2.5	2.5	2.5
1968	2.3	2.3	1.8	2.3
1969	2.5	2.5	2.3	2.5
1970	5.3**	3.1	1.9	2.8
1971	3.6	3.1	1.8	2.6
1972	3.5	3.1	1.9	2.8
1973	3.5	3.5	2.1	1.7
1974	4.3	3.5	2.2	1.8
1975	3.1	3.1	1.7	1.6
1976	2.7	3.2	1.8	1.7
1977	2.6	3.1	2.0	1.9
1978	2.6	3.4	2.5	1.9

* Sources: 1954-1969, The Impact of Government Regulations on the U.S. Automobile Industry, H.C. Wainwright and Company Economics, May 1979; 1970-78, SEC-10K Reports and Company Annual Reports

** Aberration due to UAW strike

Chrysler below GM + Ford in every year.

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In planning budgetary expenses, companies commonly attempt to hold down R&D expenditures to a desired percentage level of revenues. Table IV-9 shows R&D expenditures fluctuate only slightly. Although Ford has increased its percentage expenditures on R&D slightly since the 1950's, AMC and Chrysler have not. GM has significantly decreased R&D expenditures as a percent of sales since the early part of this decade. The single largest jump in Chrysler's figures in 1978 probably occurred more as a result of Chrysler's poor financial performance that year (revenue declined by 18 percent) than because of an increase in R&D (actual R&D expenditures increased only 3 percent from 1977 to 1978). If maintaining budgets for nonregulatory R&D was as crucial as Chrysler claims, it would be expected that a significant increase in R&D levels would be seen. No such increase is apparent. It is recognized that the possibility exists that money for other activities cannot be diverted to R&D because of minimum spending levels needed in these other areas. However, data have not been made available indicating that this is the case.

In addition, it is not apparent that companies will be spending more on research even in the future. Chrysler, in its operating plan submitted to the Treasury Department, shows future R&D expenditures as well as anticipated revenue. On a percentage basis, Chrysler's R&D costs would vary between 2.1 and 2.8 percent for the period 1979-85. This averages to 2.4 percent for that time frame; not a significant increase from their previous levels. These are shown in Table IV-10.

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TABLE IV-10
Estimated Future Chrysler R&D Expenditures

Year	R&D Expenditures ($ in millions)	Revenue ($ in millions)	R&D as a Percent of Revenue
1978*	344	13,618	2.5
1979	346	12,415	2.8
1980	367	13,586	2.7
1981	375	15,630	2.4
1982	456	17,811	2.6
1983	465	19,765	2.3
1984	455	21,812	2.1
1985	511	22,863	2.2

* Actual

A final point to note about this charge is that it will hold true with or without government regulations. Smaller companies are by nature at a disadvantage when competing with the vast capital and expertise of larger companies. This is the case for research, advertising, manufacturing efficiencies, and every other area of competitive industry. Regulations have only a minor effect in these areas, giving major benefits to the country as a whole.

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G. Summary

As shown, the Agency finds that the allegations of disproportionate effects of regulations on smaller companies are not supported by data. Through an analysis of industry supplied information, it is concluded that:

1. Regulatory compliance costs are not equal for all companies. Because of the greater variety of products offered (i.e., number of models, engines, transmissions, etc.,), it is the larger companies which must invest the most to improve their products. This greater investment tends to be roughly proportional to sales volume. In fact, both historical investment data and announced spending plans show that the larger companies have spent, and will continue to spend, more per vehicle than their smaller competitors.

2. Each regulation does not require "huge" capital expenditures. Prior regulations resulted mainly in variable cost increases, not higher capital costs. Investments for automatic occupation protection (e.g., air bags and automatic belts) are estimated to account for less than 1 percent of total capital expenditures. Although fuel economy improvements will increase industry spending by 50 percent, this increase includes meeting market demands for more fuel efficient cars and offering similar vehicles to one's competitors.

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3. The ability and cost of raising capital is not a function of size, but instead is related to financial health. Smaller firms than Chrysler, both within the automobile industry and without, have higher financial ratings -- hence lower costs of borrowing -- than does Chrysler.

4. Chrysler's current financial condition is not the result of compliance with regulations. One of Chrysler's chronic problems is its large reliance on debt. The firm's high debt to equity ratio makes it difficult to borrow additional funds. But this emphasis on debt financing began in the 1950's, at least a decade before the initiation of regulation. Chrysler's situation is also the result of managerial decisions relating to vertical integration, overseas investments, and the timing of new model introductions.

5. The effect of regulations on R&D expenditures is unclear. Although regulations can be viewed as requiring "lumpy" investments in R&D, the magnitude of this is unknown. GM, the only company reporting on what portion of its R&D expenditures is regulation-related, puts the percentage at 40 percent. If that number is the same for the other companies, and since R&D amounts to 2-3 percent of sales revenues, at most one percent of sales revenue may be devoted to regulatory R&D. However, information has not been made available by the manufacturers to adequately reach a conclusion. In addition, since most future R&D is being devoted to improving fuel economy, and since this is necessary to also meet consumer demands and for competitive reasons, the level of regulatory R&D expenditures is quite difficult to calculate.

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V. THE EFFECTS OF REGULATIONS REVISITED

In Chapter IV, the specific charges against regulations were addressed. It was concluded that: (1) regulations do not require equal investment costs per company; (2) all regulations do not require "huge" capital investments; (3) the cost of raising capital is not related to firm size but to profitability--thus, this cost is part of the risk involved in doing business; and (4) the effect of regulation on a company's personnel and technical resources is unknown, but most probably small.

Do regulations, then, attain their stated societal goals of improved safety, emissions control, and fuel economy without affecting a corporation's operation at all? Certainly not. What, then, are the effects of regulations on the automobile manufacturers?

A. The Effects of Regulations, 1967-79

Investments

As stated earlier, the Agency believes that the largest industry-related financial effect of regulations occurred in increases in variable costs. We believe this because: (1) many of the initial regulations related only to a single component of the vehicle and costs to tool only one component tend to be minor in terms of total investment; (2) the nature of the regulations appears to require more material (e.g., stronger bumpers

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or more interior padding), thus resulting in increases in variable costs, not capital costs; and (3) most prior regulations are of a minor nature (e.g., controls and display identification, standardized transmission shift lever sequences, windshield washer/wiper performance, etc.) and do not have a financial effect of corporate scale.

As shown in the previous chapter, according to the industry's own logic, prior standards did not require "huge capital expenditures." The cost of tooling for air bags, the single most expensive safety-related improvement, was estimated to only account for less then 1 percent of industry investment. It is doubtful if the tooling for the other standards combined, let alone each one separately, equal that cost.

If prior regulations resulted in large increases in capital expenditures, then industry investments over the last decade should have substantially increased. Table V-1 illustrates the historical picture of industry capital investments. Also shown are investments per vehicle sold. Although capital investments in year X are often intended to be used on products in years X+1 and X+2, dividing by the number of vehicles sold in year X is useful for yearly comparison purposes (although the actual ratio itself is meaningless).

Three things are apparent from the Table. First, all companies have experienced a significant increase in investments per vehicle over the last 2 years. No doubt this is related to efforts to improve fuel economy. This subject is addressed in the next section.

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TABLE V-1

Historical Capital Investments

YEAR	GM		FORD		CHRYSLER	
	Cap. Inv.* ($ million)	Inv/veh** ($/veh)	Cap. Inv.* ($ million)	Inv/veh** ($/veh)	Cap. Inv* ($ million)	Inv/veh** ($/veh)
1978	4,565	674	2,525	637	671	409
1977	3,647	579	1,762	508	723	460
1976	2,307	393	1,055	345	424	265
1975	2,237	498	956	372	384	305
1974	2,541	563	1,451	495	467	323
1973	2,103	342	1,403	396	629	353
1972	1,838	333	1,142	345	335	196
1971	1,642	314	1,007	338	250	163
1970	2,282	582***	1,037	371	416	283
1969	1,907	372	958	333	646	420
1968	1,726	342	879	317	420	255
1967	1,794	381	1,036	458	392	274
1966	2,079	414	1,052	379	506	340
1965	2,052	392	996	361	449	307
1964	1,682	379	791	327	473	396

* Includes expenditures on property, plant, equipment, and special tools

** Volume includes passenger cars and light duty trucks and vans, for North America only.

*** UAW strike depressed sales

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Second, except for one or two aberrations, investments per vehicle have been relatively constant over time. In fact, all three firms exhibited higher investments per vehicle in the pre-regulatory period (1964-67) than they did immediately after that time. What is even more remarkable is that if the investments were converted to constant dollars, the preregulatory period would show even higher investments per vehicle relative to the later period than they do in Table V-1. Thus, an analysis of actual expenditure patterns shows that capital investments, when examined either on an absolute or per vehicle basis, have not increased since the initiation of regulation. If anything, in terms of real purchasing power, they have decreased.

Third, the smaller companies spent less per vehicle, when compared to their larger competitors. Chrysler, in particular, invested only at a level of 60-70 percent per vehicle compared to GM. Therefore, it does not appear that investments per vehicle were higher for the smaller companies. In fact, Chrysler experienced a larger decline in investments per vehicle from 1964-67 to 1968-76 than did Ford, and Ford's decline was larger than GM's. In the last 2 years, GM's per vehicle capital expenses increased 60 percent over the pre-regulation period, Ford's increased 50 percent, while Chrysler experienced only a 32 percent increase. Hence, it seems the larger companies are experiencing the relatively greater burdens. This was the same conclusion independently reached in a recent report.[1]

[1] Energy Conservation and the Passenger Car -- An Assessment of Existing Public Policy, Harbridge House, Inc., September 1979. Page IV-6

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Historically, the smaller companies have been purchasing many of the components the large firms build themselves. This has reduced their capital investments but has increased the smaller companies' variable costs and cut into their profit margins.

Chrysler has had the highest variable costs as a percent of sales of any company in the domestic automobile industry.

TABLE V-2

Estimated Variable Costs
(As a Percent of Sales)

Firms	1974	1975	1976	1977	1978
GM	71.5	72.4	69.6	69.2	69.6
Ford	80.0	81.1	78.0	77.0	78.6
Chrysler	86.6	88.9	83.8	85.8	86.6
AMC	83.3	85.7	83.9	82.2	81.6

Variable costs are costs that change directly with production volume. Examples are: labor, direct materials, parts purchased from outside suppliers, electric power, etc.

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In the case of Chrysler Corporation, many of the parts and components required to meet Federal regulations have been purchased from outside suppliers:

Substantial Purchases	Partial Purchases
Batteries	Engines*
Bearings	Shock absorbers
Bumpers*	Starters
Carburetors	Air pumps*
Carpets*	Driveshafts
Cloth*	Rack and pinion steering
Decorative die castings	Seat foam
Malleable iron	Air-conditioners
Nuts, bolts, fasteners	Suspension members
Radiators	Brake discs*
Raw glass*	Lamps*
Seat belts*	Insulation
Steel	Catalytic converters*
Tires	Electronic controls*
Wheels*	Stampings
	Transmissions (manual)

*Subject to Federal Regulation in varying degrees.

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GM has purchased almost none of these items. Ford has purchased some portion of both lists, but they do so only as an additional flexible source to their integrated operations on the same items. The percentage of Ford purchases have been substantially lower than Chrysler's. Ford would purchase no engines, drivelines, or important suspension components.

For a long time, Chrysler, more than the other companies, has relied on outside suppliers. This situation predates Federal regulations by many years. These purchases from outside parts and material suppliers are largely variable costs and are highly susceptible to inflationary pressures. Thus, Chrysler's high variable costs are, in part, due to this extensive use of outside suppliers. In 1960, outside purchases accounted for 60 cents of every sales dollar. This figure dropped to 57 cents in 1964 but jumped again to 64 cents by 1974. In 1978, outside suppliers took 67 cents of every revenue dollar for Chrysler. In contrast, GM's purchases, as a percent of revenue, are currently 51.5 cents per dollar. In 1977, suppliers took 60 cents of every Ford revenue dollar.

Chrysler's high variable costs are, in part, due to inflationary price increases in raw materials and energy. Between 1974 and 1978, prices for cold-rolled carbon steel sheet, a primary material used in vehicle manufacturing, rose by almost 53 percent. In that same time period, aluminum sheet and strip rose by over 62 percent. The cost of industrial electric power rose over 62 percent between 1974 and 1978.

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Profitability

As illustrated in Chapter IV, General Motors, Ford, and American Motors are all healthy companies. GM and Ford have both had record years for profits in the last 2-3 years, and American Motors may, in 1979, have its most profitable year ever. It is only Chrysler which is now having severe financial difficulties. In addition to having high profits ($3.5 billion for GM and $1.6 billion for Ford), the companies have shown increases in net worth (nearly double for Ford and GM over the last decade), increases in their net profit/net worth ratios, and stable returns on assets. For all companies but Chrysler, most indicators of financial health have been increasing. Although complying with regulations certainly did not make these companies more profitable, it does not appear that it has made them less so.

Some argue that since return on sales has been declining -- or at least not increasing -- regulations must be the cause. Again, the decline in the ratio began prior to the onset of regulation. If regulations have cut into profit margins, and it is neither argued here that they do or do not, then a coincidence in time is not sufficient justification that regulations are the cause. Although these and other issues are discussed in more detail in a companion document, The Contributions of Automobile Regulations (NHTSA, November 1979), the only ways in which regulations could adversely affect profits are by resulting in price increases which cannot be recouped or by reducing sales because of higher prices. Both of these issues -- the effects of regulation on vehicle prices and on number of vehicles sold -- are discussed in the next section.

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Consumer Prices and Sales

Although some have argued that regulations have increased car prices by nearly $700, an analysis of these claims shows them to be unsubstantiated and prone to methodological error (see The Contributions of Automobile Regulations for a full discussion). This Agency believes that safety and emission devices in a 1978 automobile cost the consumer roughly $500 per vehicle -- about 7-8 percent of a vehicle's price. Spread over the life of the vehicle, this amounts to about 1/2 cent for each mile traveled.

Have these price increases adversely affected sales? Economic theory states that a higher price for the same product will result in fewer units of that product being sold. But is a car which contains seat belts, for instance, equal to one which does not? If it is, or at least perceived so by consumers, then the higher price required for the cars with seat belts should result in a sales decline. If the products are perceived as different by consumers, then economic theory cannot predict how sales will be affected since the product has changed and a new demand curve will have to be drawn. As many recent surveys have shown intense consumer interest in safety and industry market surveys show safety to be a large factor in purchase decisions for certain vehicles, it is unjustifiable to assert that consumers neither desire nor perceive safety improvements and, therefore, will purchase fewer vehicles.

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In fact, an analysis of the data shows the opposite to have been occurring. Vehicle prices, in terms of constant dollars, have risen and fallen over the last decade. But sales have not inversely reacted to price changes. Indeed, in 6 of the last 10 years, sales of passenger cars have reacted in the same direction as real price changes. This is opposite to what the theory states. Of course, the theory also states that everything else has to be equal, and this has not occurred. Not only has the product been changing but so has disposable personal income and consumers' perceptions of economic conditions. These latter two items have a much greater effect on sales than do vehicle price changes.

And finally, contrary to common belief, regulations are not the prime reason for vehicle price increases. Between 1967-78, the average vehicle price rose from about $3,000 to $5,500; only $500, or 20 percent (about $40 per year), of this increase can be attributable to regulations. In recent years, regulations have had an even lower effect.

Over the last 5 years, prices of new model automobiles have increased nearly $1,700 and there has been a tendency on the part of industry spokesmen to attribute much of this increase to government regulations. A recent public opinion survey by Patrick Caddell found that, of those who expressed an opinion, 57 percent thought that government regulation is

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responsible for between $500 and $1,500 of this added cost. It is obvious that industry spokesmen have had some success in assigning responsibility for higher automobile prices to regulations. However, regulatory price increases are actually a small, often insignificant part of overall price increases.

Each year when new models are introduced, the Bureau of Labor Statistics (BLS) publishes data on average price increases and the value of quality changes. Table V-3 shows a breakdown of the average price increases in new model automobiles for the last 5 years.

In 1975, the year in which catalytic converter systems were added to meet emission standards, regulatory costs raised the price of an average vehicle $130. This represented about a third of the overall increase of $386. In each year since then, however, regulatory costs for safety and emissions have been trivial, totalling between 2 and 11 percent of each respective year's total increase. Over the 5 years, regulations added less than $200 to the nearly $1,700 increase in car prices. It is fairly obvious that the bulk of automobile price increases were caused by something other than government regulations.

Also, the Table depicts increases made at model introduction only. The trend recently has been for companies to increase prices frequently throughout the model year. For example, on the 1979 models, GM increased its average equipped vehicle by about $302 at model introduction in

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TABLE-V-3

Breakdown of New Model Price Increases

1975-1979 Models
(Dollars)

	Safety	Emissions	Total Regulatory	Non-Regulatory	Total Increase
1975	10.70	119.20	129.10	256.10	386.00
Percent of Total	2.8	30.9	33.7	66.3	100.0
1976	13.40	7.60	21.00	177.00	198.00
Percent of Total	6.8	3.8	10.6	89.4	100.0
1977	6.95	14.30	21.25	361.05	382.30
Percent of Total	1.8	3.8	5.6	94.4	100.0
1978	0	9.99	9.99	414.50	424.49
Percent of Total	0	2.4	2.4	97.6	100.0
1979	5.75	12.10	17.85	282.45	300.30
Percent of Total	1.9	4.0	5.9	94.1	100.0
TOTAL	36.80	163.19	199.99	1491.10	1691.09
Percent of Total	2.2	9.6	11.8	88.2	100.0

SOURCE: Bureau of Labor Statistics

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September. Since then, it increased prices by $35 in December, $137 in January, and $166 in April; a total of $640.[2] Other companies have posted similar increases. These mid-year increases are pure price increases and do not reflect any additional equipment required by regulations. The regulatory share of total 1979 model increases is thus even smaller than Table V-3 shows.

The concept that regulations are responsible for the bulk of automobile price increases is not borne out by these facts. Over the 5-year period, safety and emission regulations were responsible for only about 12 percent of all new model price increases. Nearly 90 percent of this increased price was caused by other factors -- primarily increased production costs. The true villain behind higher automobile prices is inflation -- the same force that is driving up prices of most other goods in our economy.

B. The Effects of Regulations, 1979-85

This period, as shown in Chapter IV, is dominated by expenditures to improve fleet fuel economy. But as stated previously, the reasons for this increased expenditure level are not clear. In addition to regulatory pressure, there are also market demands and competitive pressures to increase fleet fuel economy.

2 Automotive News, April 9, 1979

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Market Demands

Chrysler's Wainwright report, an oft-quoted antiregulatory document, suggests that there is some demand for greater fuel economy:

> "To the extent that fuel efficiency requirements exceed what would have been demanded in an unregulated market . . ."[3]

(Interestingly, though, Wainwright never tries to estimate the excess, if there is any, of the regulatory schedule's demands versus consumer demands). Chrysler itself has publicly argued that it "has the best fleet average fuel economy of the Big Three . . . in response to consumer demand (it is producing more) small cars to meet fuel economy demand . . . ."[4] A recent report states that "the oil shock seems to have created a permanent drop in relative consumer purchases of full-size (the least fuel efficient) cars."[5]

3 The Impact of Government Regulations on Competition in the U.S. Automobile Industry, H. C. Wainwright and Company Economics, May 1979

4 Chrysler Corporation Proposal for Government Assistance, submitted to the Treasury Department, September 1979

5 Energy Conservation and the Passenger Car -- An Assessment of Existing Public Policy, Harbridge House, Inc., September 1979.

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But the most explicit statements on consumer demand for greater fuel economy come from GM and Ford. From GM:

"You can be sure, if there is any conceivable way to do so, our fleet average will be more than 27.5 miles-per-gallon by 1985. And to the extent that we can offer outstanding mileage in vehicles that meet our customers' requirements for room and utility, we will be encouraging the people to stay ahead of Washington, and that's good for all of us -- the customer, the country, and the industry."[6]

"We in the industry know that fuel economy sells, and the demand for better gas mileage is growing . . . ."[7]

"The customers are ready. They want 1985 fuel economy today." [8]

In a recent paper, Ford asserts:

"Right now the marketplace is demanding more fuel economy than the CAFE standards are . . . whether regulation or the public will be more demanding of fuel economy in the future is unclear."[9]

6 Elliot Estes, President, General Motors Corporation, Speech before the University of Michigan Automotive Seminar, August 1, 1979

7 Thomas Murphy, Chairman, General Motors Corporation, Speech before the Sales Executive Club on New York, April 1, 1977

8 Elliot Estes, President, General Motors Corporation, from Fortune Magazine, October 22, 1979

9 Ford Motor Company and DOT Regulation: Where We are Now and Our Concerns About the Future, Ford Motor Company, September 18, 1979

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An auto analyst for Kidder, Peabody, and Co., says:

> "Were the government to say tomorrow that the mileage requirement was going to be 18 mpg forever, it wouldn't make any difference. The auto companies would still have to spend the money to meet the market demand."[10]

Clearly, consumers are demanding greater fuel efficiency. Yet this is often ignored when it is claimed that all the above-historical-levels-increases in capital spending are due to regulations. Since most of these increases are related to fuel economy, it is inconsistent to claim this is a burden of regulation when the market, as well as competitive pressures, are also forcing these expenditures.

Competitive Pressures

Competitive pressures are also at play here. The industry trend toward downsizing, the beginnings of a trend toward large numbers of front wheel drive vehicles, and the anticipated surge of compact pick-up trucks and minivans, all are results of either following the successful lead of a single company or of a desire to make investments to gain, or at least not lose, market share.

The central issue surrounding future regulations is that companies must make large capital investments to improve fuel economy. But fuel economy improvements are a result of three factors -- regulations, consumer demand,

10 Maryanne Keller, Analyst for Kidder, Peabody, and Company, from Fortune Magazine, October 22, 1979

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and competitive pressures. Fuel economy, in times of rapidly escalating prices and anticipated fuel shortages, is a marketable feature. But even if the investments were all regulation-related, do they hurt the industry or smaller companies? "Had the fuel economy standards not gone into effect last year, the auto companies, especially Chrysler, might have been even less prepared then they were for the current swing in customer preference to small cars."[11] In addition, as shown in Table IV-6, the increases in investments are larger per car for the bigger companies; therefore, they do not result in any disporportionate disadvantage for firms such as Chrysler.

Capital Spending

Any burden of regulation must be measured by the increment of spending occasioned by that regulation above what would have been spent in the absence of regulation. For fuel economy, it is simply impossible to guage what that increment is. To be sure, it is somewhat less than the total increase in spending but the exact amount is unknown.

However, where regulations most likely do have an effect is in the timing of future expenditures. In the past, when sales were sluggish or when economic conditions were poor, capital investments would normally be deferred; i.e., postponed until sufficient revenue was generated by sales to finance the investment. However, if a company believes it must maintain its investment level to comply with regulations, then this option, investment postponment, may no longer be available to it. It is in this sense that the industry believes regulations, especially for fuel economy, are taxing industry resources and increasing financial risk.

[11] Fortune Magazine, October 22, 1979

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But two facts need to be borne in mind. First, failure to comply with a fuel economy standard has different penalties attached to it than does noncompliance with safety or emissions standards. It is unlawful to produce or sell a vehicle which does not meet safety and emission standards. If a manufacturer introduces such vehicles, it would have to recall and remedy the noncomplying vehicles and would be subject to civil penalties. In addition, the Federal government could seek an injunction against the sale of any noncomplying vehicles remaining unsold and against further production or sale of vehicles containing the same noncompliance. But for fuel economy, noncompliance results only in a civil penalty -- $5 for every 0.1 mpg below the standard multiplied by the number of vehicles produced in that class by that manufacturer. Although the penalty can run into tens of millions of dollars, it would have a much less severe effect on a company compared to a cessation of production.

Because noncompliance with fuel economy standards is an "unlawful" act, the automobile manufacturers have stated that they would never be in noncompliance; i.e., they would not break the law. Instead, they would comply with the standard through such drastic, last minute measures as curtailing production of the least fuel efficient vehicles. NHTSA has never suggested that manufacturers would, or should, plan on noncompliance or trade-off monetary penalties with investments to improve fuel economy. Nor can NHTSA accept as sound policy massive shutdowns of auto plants, with their attendant employment losses and economic disruption, in lieu of paying a penalty. Although noncompliance is an unlawful act, the only consequence under the statute is that a civil penalty is levied. This provision was <u>not</u> intended to result in a <u>plan</u> to fail to meet a standard, but rather

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was designed to take cognizance of uncertainty in the market and the complexity of production scheduling to account for unanticipated fuel economy shortfalls. Thus, the penalty provision was incorporated as a "safety valve" for the industry.

Secondly, any potential penalty may be offset by earned credits. Credits are accumulated at the same rate as penalties -- $5 for every 0.1 mpg above the standard. A penalty may be offset by credits earned in the prior or subsequent year. The Department of Transportation has recommended to the Congress that this 1-year period be extended to 3 years in each direction, thus further mitigating any possible adverse financial situation.

Finally, in setting fuel economy standards, the Agency must consider the criterion of "economic practicability." Essentially, this means the standards should not be so severe as to threaten the financial health of the industry. In applying this criterion, the Agency recognizes that what is "economically practicable in a healthy economy (may) prove to be 'impracticable' in a recession."[12] Therefore, sufficient latitude exists in the existing statute to administratively amend any of the standards should this become necessary.

12 Third Annual Report to Congress, Automotive Fuel Economy Program NHTSA, January 1979

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V-20

C. Summary

The automotive industry has not been victimized by regulations. Already existing regulations account for only 7-8 percent of vehicle prices and for roughly 10 percent of the $1,700 increase in prices over the last 5 years. Prior regulations have not resulted in increases in capital spending, but do appear to have increased variable costs by a small amount. Neither sales nor profits have been deflected from their rising trends due to regulations.

Since future regulatory compliance costs are dominated by fuel economy related expenditures, and since these are also brought about by consumer demand and competitive pressures, it is not justifiable to single out these increases in capital spending as a result of regulation. In fact, the issue is so clouded and quickly changing that it is impossible to say which part of the increase, if any, is due to regulations. But regardless of the magnitude of the regulation-induced increase, the companies' own spending plans show that smaller firms are not disproportionately affected. Also, should the economy falter and industry revenues decrease, the fuel economy legislation permits changing the standards, if necessary, to provide the needed flexibility for manufacturers to remain financially healthy.

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Senator TSONGAS. One final question for the record. I will not take the committee's time. We are going to spend a bloody fortune around here to redesign the automobile. Whether it has five wheels, as Senator Garn has suggested, or not, is another issue. But assuming that DOT takes that money—I believe about $2½ billion, something like that—and redesign a brand-new world car, can Chrysler adapt to that? This assumes that they adapt to today's realities. What happens if we come up with a brand-new automobile? Will they be able to adjust?

Mr. ALTMAN. Well, Senator Tsongas, I think what is occurring now in the automobile industry is development of what amounts to a brand-new automobile, and it is our view that Chrysler can transform its product line into one which is consistent with the market for the 1980's consumer preference—efficiency—based on all that, based on this plan. And we view it as development of a new automobile.

If you are asking me whether an entirely new technology came along, whether Chrysler could keep pace with it, I think that would depend on the technology, and I don't know the answer to that. But it certainly doesn't appear that that is likely.

Senator TSONGAS. I am tempted to make the observation that you are arguing, in essence, for the repeal of the law that gave DOT that kind of money. But I won't suggest that.

The CHAIRMAN. Mr. Altman, the legislation requires that Chrysler submit to the Treasury a satisfactory operating plan for the next 4 years and a satisfactory financial plan before Federal guarantees will be granted. As far as I know, these plans, the operating plan and financial plan, have not been presented in a form that is satisfactory to you. Is that correct?

Mr. ALTMAN. Senator, we have received a plan, made adjustments in it which we—and the adjusted version which we find satisfactory for purposes of basing our legislation on. We would have such plans by the time this legislation is enacted and, in particular, that the financing agreements are completed, which would be several months after that.

The CHAIRMAN. You have adjusted it to your satisfaction, but wouldn't it be necessary for the company itself to not only agree to it but to indicate that—after all they have the primary expertise here—that they feel it is practical and they could work within it and so forth?

Mr. ALTMAN. Yes, it would be necessary for the company to comply with those adjustments. But there would need to be a new plan linked to the time that this overall loan guarantee begins.

The CHAIRMAN. The new plan concerns me. Knowing the details of that plan, it seems you ought to know what they are before we go ahead and OK $1.5 billion of loan guarantees and then trust the judgment that somehow the Treasury and the company between them will work out something that is satisfactory.

Mr. ALTMAN. Senator, I know you are very familiar personally with the way the New York City loan guarantee works. We are taking a similar approach here. It will have to be what amounts to rolling operating plans which are updated every 6 months or so.

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The CHAIRMAN. With New York City we had very, very specific spelled-out details as to how it was going to work out before we approved it.

Mr. ALTMAN. But the concept is the same. Unless the plan is satisfactory to the Secretary of the Treasury in terms of prospects for repayment and a return to the company, self-financing for this company after 1983, then we can't accept the plan and issue guarantees, loan guarantees, on them.

The CHAIRMAN. Go beyond that 1983. This is an 11-year guarantee. If every year the capital demands go up, there is no indication that they turn down in every single case. They are higher in 1983 than in 1982. Do we just automatically assume they will be lower in 1984 in all of these cases and 1985 and 1986? In view of the fact that this has, as I say, an 11-year guarantee, why not spell it out for 11 years?

Mr. ALTMAN. Two points. First of all, the company projects—and our assessment of that projection is to concur with it—that it will return to a positive cash flow mode in the 1982–83 period. And it is our judgment that the company will become—will return to being self-financing, no longer dependent——

The CHAIRMAN. Is that true with every one of the adjusted base case, to 90-percent base volume, for instance, and base case II and III, with the 90-percent base volume, that they will return to positive cash flow in 1984?

Mr. ALTMAN. It is based on the adjusted base case II, 95-percent base volume. It is true.

The CHAIRMAN. How about 90 percent?

Mr. ALTMAN. The company's financing needs in this case obviously are going to be larger and the time by which it returns to be able to finance itself longer. It is our judgment that this very conservative case, including all of the adjustments we have made in terms of the scaling down, the expected improvements and variable margins and fixed costs reductions, and scaling down the market share estimates and scaling down the overall industry estimates, that on this basis——

The CHAIRMAN. In spite of all of the scaling down, it was explained to us by the Secretary that in 1983 they expect the market to be 11.2 million cars sold. And the 90-percent base volume case, Chrysler a bigger penetration than they have now. So, those might be very optimistic assumptions.

My question is: What do you see in 1984 in the event that 90-percent base volume and the assumptions that you make with respect to the market in 1984 work out? Are you telling me that in every case the cash flow would turn down and the capital, need for capital, would diminish? Is the peak 1983 in all these cases?

PROFITABILITY UNLIKELY IN 1982

Mr. ALTMAN. No. Let me answer this way: At the 90-percent volume level, the company would not be restored to profitability in 1982, as would be the case at 95 percent, or the 100-percent base volume. If it is not profitable at that time, the likelihood then it would be able to finance all of its own needs on its own is prob-

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ably—well, it is lower, certainly, than in the other cases, and very questionable.

The CHAIRMAN. Let me ask you this: You don't—I am sure you don't have it available now—but will you spin out over the next 11 years right through 1990—because that is what the guarantee is for—the event of a 9-percent and a 10-percent penetration and the effect of stabilizing the automobile market in the area of, say, 10 million cars or 10½ million cars? I don't expect you to have that now, but if you could do that for the record, I would appreciate it.

Mr. ALTMAN. What I do have is an estimate of the company's financing need in the event that there is no change in its market share from today's level through 1983. That shows a $3.8 to $3.7 billion need through 1983 based on this adjusted base case II——

The CHAIRMAN. That's less than what you have there, 3.83 is what you have there for 90 percent.

Mr. ALTMAN. I am talking about 100 percent.

The CHAIRMAN. All right. Adjust that down to 90 percent.

Mr. ALTMAN. Yes. But I would like to emphasize that projections 11 years out are so much a function of the assumptions that you use that——

The CHAIRMAN. I know that. But we want several assumptions because that is one reason why maybe we ought to curtail this and make it a 4-year guarantee or a 5-year guarantee instead of an 11-year guarantee. If they are that far out there, that speculative, that much risk, there is a good case for not going that far.

Mr. ALTMAN. We will do the best we can.

[Response to Senator Proxmire's questions can be found in Treasury Department letters dated Nov. 21 and Nov. 23, 1979 located in Part I, pp. 497 and 504.]

The CHAIRMAN. The banks have a high stake in finding a solution to the problems facing Chrysler because of the large amounts of loans that Chrysler is into them for. It is important that the role of the banks be spelled out clearly and that the banks meet the expectations of both the administration and Congress before we grant the guarantees.

Therefore, I would like to know what it is you expect from the banks. First, since the banks have a large stake, they should put up a substantial amount of new money to protect money they have outstanding. What type of financial commitments do you expect the banks to make toward the new nonguaranteed funds that will be required?

Mr. ALTMAN. We agree, to the extent that we hope the banks will make fresh lending commitments as a part of the $1.5 billion private portion of this. The exact amount and form of those commitments would be subject to——

The CHAIRMAN. I realize you want it from anywhere you can get it, and that's fine. It gives you maximum flexibility.

Mr. ALTMAN. It is not that broad.

The CHAIRMAN. How much do you expect from the banks?

Mr. ALTMAN. We think each of the major constituent parties, including the banks, should participate in the $1.5 billion of fresh capital.

The CHAIRMAN. How much? One dollar?

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Mr. ALTMAN. The exact proportions have got to be left to negotiating. I think we don't want to mandate portions of that $1.5 billion beyond saying that each of the major constituents ought to play a meaningful role in it.

The CHAIRMAN. Rhetoric is fine, but when you say "meaningful and significant," it doesn't mean anything. It can mean $10 million or it can mean $100 million or it can be half a billion dollars.

Mr. ALTMAN. Let me point out something. The banks could, for example, participate in two ways: one, to improve the terms of the existing credit; for example, stretching out maturities to reduce the company's debt service below the levels projected in this plan and put in some fresh capital in a way which could at least be commensurate with participating only with fresh capital.

So, I could say that several hundred million of fresh capital would be appropriate from the standpoint of the banks, but it is also true that half of that, plus an equal amount of cash savings through restructuring the existing debt, might also be an appropriate solution.

There are several ways this could go. It is not rhetoric, but a matter of the fact——

The CHAIRMAN. I would like to get some feel, some notion of what you think would be a reasonable investment by the banks. It is common in work-out situations to restructure and stretch out existing loans. Would you require banks holding existing loans to either Chrysler or Chrysler Financial to make substantial concessions on existing loans?

Mr. ALTMAN. We are asking the banks to do two things on the existing loans: first, to maintain them; and to reinvest—that means to reinvest or relend the maturities that otherwise would occur during this period; and second, by definition, to agree to subordinate their credits that they now have——

The CHAIRMAN. You will ask or require as a condition of providing the guarantee?

Mr. ALTMAN. The statute now says—or it is our intention——

The CHAIRMAN. It says you can waive it.

Mr. ALTMAN. That's true, Senator, but the waiver authority principally relates to new financing. And while we do have the right also to waive our Federal priority as it relates to existing credit, it would not be our intention to do that.

The CHAIRMAN. You are saying that it is true that if it became necessary to finalize the new package, you would have the right to do it, but it's not your intention to do so. I wouldn't say that.

My time is up.

Senator RIEGLE. I would like to ask Mr. Altman to insert in the record in detail the safeguards that would exist and do exist in the legislation as it has been drafted against all kinds of windfalls, whether they be windfall profits, whether they be some sort of a new benefit to the banks involved, and so forth. I would like a thorough detailed list of the safeguards as you see them against any kind of abuse.

And, in addition to that, I would like you to spell out the ways in which you see the Government being compensated for the risk that it would carry for any loan guarantees that it extends.

Let me reserve the balance of my time.

[The following was subsequently submitted for the record:]

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DEPARTMENT OF THE TREASURY,
Washington, D.C., November 20, 1979.

Hon. DONALD W. RIEGLE, Jr.,
U.S. Senate, Washington, D.C.

DEAR DON: At Wednesday's hearings of the Senate Banking Committee on Chrysler, you asked me to describe how our legislative proposal would avoid windfall to others and protect the Government's position.

Let me begin by emphasizing that, instead of permitting windfall gains, the essence of our proposal is to require the parties with existing interests to make sacrifices.

Specifically, before any loan guarantees could be issued, the Company must raise $1.5 billion in financing from non-Federal sources. While left to the Company and its interest groups to negotiate, we expect Chrysler to obtain new commitments for assistance from all major constituents. The following are examples of the sacrifices that could be necessary from these parties.

Banks, financial institutions and other creditors may provide additional financing, make debt service concessions, subordinate existing loans, or provide equity financing.

Suppliers may liberalize credit terms, provide price concessions, and provide loans or equity.

Labor unions and employees might make additional compensation concessions, and provide loans or equity.

State, local and other governments might make tax concessions, grants, loans, or provide equity.

Dealers might make margin concessions, bear certain additional costs, and make loans or equity investments.

Shareholders may be required to continue to forego dividends and/or purchase additional equity.

In addition, these constituents must maintain those commitments to the Company which existed on October 17, or be replaced by new lenders, and do so for the duration of any Federal guarantee or guarantee commitment. This means sacrifices because it requires reinvestment of whatever amounts of those existing short-term commitments which were scheduled to mature.

Furthermore, windfall to Chrysler and its constituents groups from our proposed Federal guarantees will also be avoided:

Federal assistance will be available only if unguaranteed private financing is not otherwise available under reasonable terms. Interest rates on guaranteed loans must be reasonable and approved by the Treasury Secretary. This will avoid higher than appropriate interest returns to the quaranteed lenders.

The Government will receive at least a 0.5% guarantee fee from Chrysler and may require an additional fee to compensate for its risk. This will require the Company and its constituents to bear an appropriate cost on any guaranteed loans.

To avoid long-term dependence on federal financing assistance, guaranteed loans must mature by 1990 and may not be issued after December 31, 1983.

Maturities on existing and on new financing commitments from constituents must proportionately be no shorter than those on Federal assistance. The guarantees may not be issued at a proportionately faster rate than the other commitments are utilized. This will avoid a situation where new or existing lenders could be repaid, or concessions recouped, before the Federal Government.

Our bill also contains numerous other mechanisms to minimize the Federal Government's risks and achieve the guarantee program's aims of a viable Chrysler. These include the following:

Neither commitments, nor guarantees, can be issued unless the Company has submitted satisfactory four-year operating and financing plans which demonstrate it will operate after 1983 on a self-financing basis.

Neither commitments, nor guarantees, can be issued unless the Secretary finds there is reasonable prospect for repayment of the guaranteed loans.

Generally, security must be obtained, existing loans be subordinated, and dividends precluded. Waiver of these requirements is possible only to facilitate Chrysler's ability to obtain financing, and then only on the condition that the Secretary finds there is a reasonable prospect of repayment despite the waiver.

Guarantee and loan agreements must include all covenants and other provisions that are appropriate and usual to transactions of this nature.

The Government may require a change in management to assure a sound managerial base.

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The Company and its constituents will make sacrifices over the near term, as I have described here. Any long-term benefits—such as continued employment, ultimate value of equity investments, bankability of loans—will occur only as a result of these sacrifices.

I hope that this information is useful.

Sincerely,

ROGER C. ALTMAN.

ROLE OF BANKS

The CHAIRMAN. Let me follow up on what I was asking about the role of the banks. If the Government is to get involved in providing guarantees, the Congress has the responsibility to make sure that in the case of a Chrysler default that the taxpayers' interest will be protected. Of course, that would be one of your principal missions. Why shouldn't we require in this legislation that the Government be the last in and the first out? In other words, we go in as the last resort only if they can't raise money in the private, and we get out before anybody else gets out?

After all, we are not going to gain anything from this. Most of the other participants have a great deal to gain. The Government should provide guarantees only for short maturity loans, while the private sector puts up the longer term money. Would you agree that that should be the requirement if we wrote it into the law?

Mr. ALTMAN. Not precisely that requirement. Our proposal is that it can't be shorter than the guarantee, so that at the worst from the Federal point of view, private lenders would be repaid in step, together, that is, with us. And the same applies to existing credits. As I have said——

The CHAIRMAN. Why would you resist having the Federal Government paid off first?

Mr. ALTMAN. Why would we resist it?

The CHAIRMAN. Yes. Why wouldn't that be proper?

Mr. ALTMAN. We will do the best we can on negotiating, and that is clearly a negotiating objective we will have. But we are not sufficiently sure that we can get the $1.5 billion in private lending commitments if the Federal Government must be paid off first up to 1.5 before anyone else is repaid.

The CHAIRMAN. This is the best kind of evidence that these other experts in the financial market consider this to be a very bad risk. After all, if the Federal Government is going to come up with $1.5 billion of guarantee, maximum, why shouldn't this be enough to require that the private sector should subordinate what they are getting, in the sense that they have to come in first and that the Government will get out first?

Mr. ALTMAN. We are already asking, in effect, existing lenders, who have billions of dollars of credits in the company, to subordinate that to the new Federal credit assistance. We are asking that subordination on existing credits.

It also will be our objective, as we negotiate these guarantee agreements, to raise the financing on a basis whereby the Federal Government is repaid as early as possible and no later than any private lender is repaid. But we don't think that a statutory requirement of that type makes sense, because it may not be possible to negotiate the $1.5 billion in private financing on the basis of a requirement like that.

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The CHAIRMAN. Why shouldn't the Federal Government have first lien on these assets, in view of the fact that we are going in, as has been indicated, strictly on a sacrifice basis as far as the taxpayer is concerned, and the taxpayer has no investment, as the banks have at the present time? Why shouldn't we insist that other creditors have a subordinated position?

The legislation, as I understand it, provides that the Secretary of the Treasury has the authority to waive Federal priority, which is a wonderful idea, especially for the banks who are themselves too timid to ask for this. They didn't ask for it, I guess.

Did we give them that authority with respect to Lockheed? We didn't give it with respect to Lockheed?

Mr. ALTMAN. In New York City.

The CHAIRMAN. New York City is different. I opposed that. It is a different case. This is a municipality with 8 million people and with the services, possibly including fire, police, school and so forth, absolutely essential to the lives of the greatest city in the country. It is quite different than this situation, which has a high priority, but certainly should be—wouldn't have the same claim as New York City.

Mr. ALTMAN. Senator, our objective—and this is why the statute is written this way—is that the Federal guarantees be senior. That is our objective. We will do our best to have as much as possible of the up to $1.5 billion on a senior basis.

We want the right to waive the Federal priority on a portion of that if it becomes necessary to facilitate the overall plan.

The CHAIRMAN. Let me ask you about another line of approach. Many experts argue that Chrysler can do better if they downsize, if they are not so big and so stretched out. There is a difference of opinion on that and the difference of opinion is rather sharp.

But why shouldn't we have the alternatives before us? Why shouldn't we understand thoroughly what our prospects are, what best judgment the Treasury has and the outside experts have on those alternatives, before we move ahead? Once we move ahead, it seems to me that we are foreclosed from any influence, really, in determining the scope that Chrysler has.

And why has that been left up to Chrysler? We know they want to be a full-line company. They want to develop new lines, new luxury cars, and light trucks. Has the administration asked its outside experts to come up with alternatives for downsizing Chrysler, and if not, why not?

Mr. ALTMAN. The answer to your first question is, at least in part, you obviously have the opportunity to scrutinize the company's arguments as to why it doesn't believe that a major downsizing is consistent with restoring it to commercial viability and self-financing.

Second, there is a long report prepared by Booz-Allen on this subject, which is part of the record, and which— the independence of which we feel comfortable with. We have asked the company to give us alternatives on product line by mid-December.

But I don't think that—I don't think that the committee is at all without a basis of judging whether or not the arguments which the company makes and Booz-Allen makes and we at this stage support are right or wrong.

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The CHAIRMAN. There may be a sentiment on the committee or on the floor of the Senate to provide for an amendment requiring downsizing. We don't have the alternatives or the judgment or the record before us in the hearings that we ought to have so that we can make an understandable response to that.

Senator RIEGLE. Would you yield just briefly?

The CHAIRMAN. Yes.

CHRYSLER REDUCING SIZE OF OPERATION

Senator RIEGLE. They in fact have been scaling back and reducing the size of the operation. There are a list of things that have already been done. There is a further list of things that are in the works. On page 39 of the Chrysler submission, for example, just in terms of the internal components that go into cars, the major elements, engines and transmissions, you will see.

You will see that they go from a larger number of engine and transmission options to a much thinned down and reduced number of options through the 1985 period. So that is a very integral part of the plan.

In addition to that, if I may just say, the Secretary of the Treasury, in light of your concern earlier about changing market conditions or what develops as we go, has the power under this legislation to mandate further changes and to mandate modifications to the plan to make it conform.

But clearly that is the program as it has now been presented, to do exactly what you are speaking of.

The CHAIRMAN. I am not satisfied with just the decision of the Secretary of the Treasury to how Chrysler operates, and we ought to know whether the legislation should prohibit, during the period of the guarantees, Chrysler getting into a new luxury car, for example. I realize there is a high profit on that kind of a car, but I also feel that there are several problems here.

Not only is it a problem of developing a gas guzzler, perhaps, and so on. But it is primarily a problem with the Federal money competing with private firms, Ford and Chrysler and American Motors and so forth, that are not getting this kind of a guarantee. And for us to permit them to have that kind of discretion to use Federal money to be able to compete on that basis, it seems to me is unwise. And I would like your comment, Mr. Altman.

Mr. ALTMAN. Senator, let me make two points. The first is that, as far as the overall downsizing of the company question is concerned, we spent a lot of time with Chrysler and with Booz-Allen reviewing the arguments, the pros and cons on downsizing, and concluded that, based on the information available to us now, it was not at all clear that downsizing strategy would be consistent with returning this company to commercial viability and independent financing. We couldn't conclude that it would work.

And I assume that the committee will have the full opportunity to question Chrysler on that, and also to question Booz-Allen on that, and get access to the same arguments and analyses that we had.

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Second, we, as Secretary Miller said, do not want to mandate managerial decisions on this company, including product line decisions. And so we would be against a statutory requirement——

The CHAIRMAN. I admit I am very ambivalent on that. I am reluctant to mandate managerial decisions on the company, too. I don't want to have either the Congress, especially a bureaucrat in the Treasury or anywhere else, to tell Chrysler how to run its business, when they undoubtedly have better judgment.

But still, it seems to me we ought to understand that what is going on here—and I am very disturbed about the notion that Chrysler can use Federal money, paid for by the taxes of Ford and GM, to compete with them. I don't think that that is—I think we ought to limit that as much as we can in letting them get into a new line they are not in now, a luxury car, which is something they indicate.

But that bothers me. I would confess it is an ambivalent situation, because I would agree with you that you ought to leave as much managerial discretion to the Chrysler Corp. as we can.

Senator RIEGLE. Would you yield at that point? Could I just respond to your concern there?

The same question occurred to me. What do they mean by introducing a luxury car? In examining that, what I have found is that it means that this does not mean developing a new kind of car. This does not mean going out and producing a car that they don't already have in their process.

What it involves is taking a standard car that already is part of the mix and dressing it up with trim features, and going after a segment of the market that has been very profitable, as a way of trying to generate some of the money that they obviously need to compete or to complete this retooling process to get these other facilities modernized.

It is a business judgment. But it would not be fair to infer that there is some exotic new car on the drawing boards that would be called a new luxury car. That is not what it means.

The CHAIRMAN. Not a new luxury car. But it would be a luxury car jazzed up and made competitive, partly with the help of Federal money, to compete with the firms that are not getting Federal assistance.

Mr. ALTMAN. Two quick points on that. First of all, by 1983, 94 percent of the company's overall production will be in small and midsized cars, 94 percent of the total.

Second, of the $13.6 billion capital spending over the 1979-1983 period, $75 million of that is projected to relate to the larger car. So I think it is clear that we are talking about a very small portion of the company's business that would relate to other than small and midsized cars.

The CHAIRMAN. Let me ask you about this, the $1.5 billion of outside money. The administration's proposal clearly calls for financial commitments or concessions from persons with an existing stake in the health of Chrysler before guaranteed loans are provided. These concessions or commitments are to be in excess of those outstanding as of October 17 of this year.

First, I would like to know about that date of October 17, how it was determined. We know that between last August and October

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the amount of credit banks are willing to make available to Chrysler Financial was reduced by $700 million from $1.6 billion to $900 million, almost cut in half.

October 17 let the banks off the hook, which I think you should object to strenuously. How about that?

Mr. ALTMAN. The October 17 date was selected because that is the date upon which we received the Chrysler plan.

The CHAIRMAN. That is the date by which they had reduced their commitments just about in half.

Mr. ALTMAN. As far as the commitments to Chrysler parent company is concerned, the finance subsidiary, it is a self-financing entity. We require that the commitments in place on October 17, $565 million from the U.S. banks on a revolving credit and the others——

The CHAIRMAN. Why shouldn't this be a total package? Why do you distinguish between the parent and the subsidiaries?

Mr. ALTMAN. It is the parent company which is going to be using all of the funds that we are talking about in the $3 billion financing plan. This is for the parent. The financing subsidiary can do its own financing.

The CHAIRMAN. This does let the banks off the hook to a considerable extent.

SOURCES OF OUTSIDE CONTRIBUTIONS

I would like to have your estimate of the sources of outside money, what the contributions will be. The bill indicates specifically persons with a stake in the corporation, "persons" in quotes. Let's go down the list.

How much do you expect in the form of new loans from the banks? Any idea?

Mr. ALTMAN. On any of these, as I said earlier in response to your question about the banks——

The CHAIRMAN. We discussed the banks. But let's go further. What would be the concessions you expect to be made by suppliers? Price cuts, longer payment of credit extended, lower interest on credit extended? All of those, any of those?

Mr. ALTMAN. Suppliers can participate in at least, in one of the least two ways: they can provide equity financing as part of the family stock proposal, they can improve the terms of credit which they provide to the company. And there are others.

But until the negotiations are further along, I can't say precisely what form supplier participation would take, nor the form or the amount participation on the part of any of the other constituent parties would take.

The CHAIRMAN. We had a colloquy with Senator Heinz and the Secretary on common stock and selling stock. I agree wholeheartedly with the soundness of Senator Heinz' position on that.

Let me ask another angle on that. The stockholders, the existing stockholders, those who have a stake—not the general public, which the Secretary felt was impractical to sell to them, existing stockholders, who could have a terrific windfall here if this succeeds as you expect it to do, do you expect these stockholders to buy additional stock and repay to the company any of the dividends that have been paid out during the last 4 or 5 years?

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Mr. ALTMAN. Well, we are hopeful that the overall financing plan will accrue new equity. The bill out of the House Banking Subcommittee would require—we support it—would require that at least $100 million of new equity be obtained as part of the overall plan. Now, whether it comes from part of the Chrysler "family," quote, unquote, which would include suppliers, dealers, and others with an economic——

The CHAIRMAN. You think $100 million is reasonable?

Mr. ALTMAN. Yes.

The CHAIRMAN. How about $200 million?

Mr. ALTMAN. I think going much beyond——

The CHAIRMAN. I proposed $300 million this morning and after all, it is a $1½ billion situation. If you, any corporation, the first principle you learn in business, as you know, is that you have to have that equity available in the event that you are going to borrow money. You can't have the super-leverage which they have here.

So if you have any kind of setbacks, you don't have a stock equity cushion to take care of it.

Furthermore, of course, the equity money is cost free. You don't have to pay interest on it, compared to the 15 percent you would have to pay probably on loans.

So it is terribly important to get that equity. It seems to provide $3 billion, which is only 20 percent of the Federal portion of this in equity, is a pretty reasonable proposition.

$100 million is really peanuts.

Mr. ALTMAN. You have before this committee, as I understand it, representatives of the financial community, the underwriting community. I think you will find what Secretary Miller said is true.

The CHAIRMAN. No, no, no, no, no, no. What he was talking about, sale to the—not to the existing stockholders, but to others.

We see as a condition these are people who have a great stake. I am not talking about the general public. He made a strong case on that.

I happen to disagree with him and agree with Senator Heinz, but he may be right. As far as the present stockholders are concerned, they are the ones who own the company. In every kind of a failure, they are the ones who are supposed to take the beating and will take the benefits if it succeeds.

Why shouldn't we require——

Mr. ALTMAN. Seventy percent is held by the general public of the company's stock. The point he makes about public appetite for common stock of placement to the public that owns some as to that which does not.

But it is generally the investment public. We don't think that a public offering of Chrysler common stock today over the near-term, to existing public shareholders as well as new public shareholders would succeed.

The CHAIRMAN. This is an astonishing situation. If the stockholders don't want to bail out the company, even to the extent of 10 percent of what is required here, $3 billion as required, and they won't come up with $300 million, and the best that they can do is $100 million, according to the House and according to what the

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Treasury is telling us, it seems to us that that is not a very encouraging situation.

We would expect the stockholders, and they would under most circumstances, to have to come up with all of the funds.

Mr. ALTMAN. That is not how a workout normally works and it is not how this will work.

The stockholders are making a sacrifice here because several things are going to happen as part of this plan, none of which are in their interest.

Number one, the company is going to have to sell some assets and reduce its asset base and the base, therefore, which would be available in the event the company failed for distribution to stockholders.

The CHAIRMAN. That is the last 5 minutes of the rollcall. I guess that we will have to run.

Senator RIEGLE. Why don't we let him put his answer in the record?

The CHAIRMAN. I have a lot of other questions that I want to ask. This is the only chance. You can stay, can't you? I don't want to have to ask the Treasury to come back.

Senator RIEGLE. Fine. I will come back.

[Brief recess.]

The CHAIRMAN. The committee will come to order.

The labor unions, we were talking about the stockholders, the banks, and so forth, and the contributions that each had made. The labor unions, have they made any real concessions in the new contract, which has been termed higly inflationary by COWPS, by Mr. Kahn?

Mr. ALTMAN. Yes. There is an estimated $203 million of compensation which will not be paid to Chrysler employees over the term of the contract, which would be paid if it were identical to GM and Ford.

The CHAIRMAN. It is still not the kind of concession that the principal inflation fighter that we have in the executive branch feels is necessary. He says that it is outrageous. It is an increase that violated the guidelines.

Shouldn't we expect more of them?

Mr. ALTMAN. We have said, Mr. Chairman, that we think further sacrifices by each of the constituent parties, including the employees.

So we hope and expect that there will be further concessions.

The CHAIRMAN. Why shouldn't we write into the legislation and get a further commitment? What should we write in further?

Mr. ALTMAN. It can be financing—with regard to financing.

The CHAIRMAN. How about loans from the pension fund?

Mr. ALTMAN. I think loans from the pension fund are unlikely for a series of reasons. There is a very major unfunded liability already. In addition, the real guarantor or insuror of such loans would be the Pension Benefit Guarantee Corporation.

They would not be, in effect, unguaranteed loans of the conventional type.

The CHAIRMAN. Would it be an unduly risky loan for the pension fund?

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Mr. ALTMAN. I am not prepared to say that it would be, but I think that there are——

The CHAIRMAN. If it wouldn't be, why shouldn't we expect them to do it? They are principal beneficiaries of the people who work at Chrysler.

Mr. ALTMAN. There ought to be further concessions. It might be equity investments. It may take the form of certain types of financing. It may take the form of further compensation concessions. I can't tell you now which form it will take or how much it will be.

We agree with the point that you made that there ought to be more.

The CHAIRMAN. How about the State and local governments? This morning I read a statement by Gov. Otis Bowen in Indiana, one of the States that has the heaviest concentration of Chrysler employees in which he said it would be a tragedy for us to lose them, but we cannot dole out a lot of money to the company, that they would not provide assistance from Indiana, that the Federal Government ought to do it. The States are in better shape than the Federal Government. They don't have the deficits that we have.

Indiana is a well to do State. Why shouldn't we expect them to contribute? And can we accept that kind of a statement from a Governor of one of the principal States that would be benefited?

FINANCIAL PARTICIPATION BY STATE GOVERNMENTS

Mr. ALTMAN. We expect the State governments to participate in the overall financing plan. We have a proposal from the State of Michigan which we are studying. We received it just a few days ago. It involves $155 million of proposed contributions, financing contributions from the State. And we expect the company and its financial advisors to be negotiating with the State of Michigan and the other involved States on an overall package of State assistance.

The CHAIRMAN. You have Michigan, which is a very important State, the principal employer. But these other States also have very heavy employment.

How about Missouri?

Mr. ALTMAN. How about——

The CHAIRMAN. Have they indicated their willingness?

Mr. ALTMAN. No State other than Michigan of which I am aware has committed itself to provide financing assistance.

But I don't think that Chrysler or Salomon Brothers has yet met individually with the other States.

The CHAIRMAN. Shouldn't we be further advanced before we say yes to this? Shouldn't we know whether it is likely that you will be able to raise that $1½ billion, where it is going to come from? Whether or not these parties have really been called on to make the kind of contribution they should?

You say only one State. Now what cities have indicated that they are willing to provide——

Mr. ALTMAN. The city of Detroit.

The CHAIRMAN. Any other city?

Mr. ALTMAN. Not that I am aware.

The CHAIRMAN. Only one city and only one State out of the six States and the scores of cities that are involved.

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Mr. ALTMAN. If the $1½ billion is not provided, non-Federal $1½ billion, and on a basis which we consider represents real money, then we don't have authority under the proposed legislation to issue any guarantee.

So if your concern is that the $1.5 billion may not be assembled, and if it isn't, there shouldn't be any loan guarantee——

The CHAIRMAN. It goes beyond that, quite a bit beyond just $1½ billion. It seems to me that the Federal Government ought to have assurance that if we are going to call on taxpayers of this country to make this kind of—take this kind of risk, that certainly the taxpayers of the cities and States that are going to benefit, certainly the labor unions, certainly the banks, certainly the stockholders should play a substantial part in it.

It is not enough in my judgment to see that maybe two or three of these constituent groups of the five or six constituent groups take part.

It would seem that we ought to make sure that all of them do and do to a significant extent.

Mr. ALTMAN. We intend that each of the major ones be involved. We see no reason now why they won't be.

Again, unless there is a real billion and a half of private financing or its equivalent, then there won't be any loan guarantee issued.

The CHAIRMAN. I wonder if the $1.5 billion is enough. We require more than that in other cases of guarantees, a high proportion, that is.

And in this case, we assume that only one-half of Chrysler's total financial needs will be guaranteed by the Federal Government, that one-half will be.

Earlier plans said that the percentage was around one-third, as I understand it. Now we have gone to one-half. Why shouldn't Congress reduce the Federal percentage to one quarter or one-third? Wouldn't that be a fairer and more equitable apportionment of risk and wouldn't that provide greater assurance that the Federal loan would be repaid?

Mr. ALTMAN. I don't think the overall plan could work on that basis because what actually happened, and the reason why the company's original request on October 17 for $750 million was increased in the administration's proposal to $1½ was that on October 17, Chrysler came in and said, we have a gross financing need over this 4-year period of $2.1.

We think that we can do approximately $1.35 of that on our own. We feel that we have to have the balance for the Federal loan guarantees of $750. We had Ernst & Whinney, John Secrest, our own staff, work for 3 weeks studying that and we concluded that the company had underestimated its gross financing need and the need over the period, even pro forma for some capital spending reductions was $3 billion. But that the company could be expected to raise only slightly more than it said it could, meaning its capacity for doing so.

The CHAIRMAN. Look at how the situation has changed. Originally, the top amount the Secretary was very emphatic about it saying no more than $750 million. And Chrysler was expected to raise the additional $2.1 additional amount to make it $2.1 million.

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Now the ratio has changed. Originally, the ratio was close to 2 to 1 with the private sector putting in $2 for every dollar the Federal Government put in.

Now you have revised that to make it 1 to 1.

Mr. ALTMAN. But, Senator——

The CHAIRMAN. You have done that on the notion that it's necessary for it to work, which is, as I say, speaks most eloquently to the argument that the private sector doesn't have faith that this will go.

If you can't get people to contribute as they have in the past on a matching $2 for every $1 that the Federal Government puts in, it seems to me that is awfully powerful evidence, much more than rhetoric or than appeals about what a great operation you have got that it won't go.

Mr. ALTMAN. Any corporate entity has a finite capacity for new financing, particularly debt financing. I don't think it is correct to assume that simply because private lenders and other investors will only do $1½ billion, together with the Federal portion, that that suggests that there is not sufficient confidence in the overall company.

Obviously, Chrysler can't raise $10 billion on its own. I think we would agree on that. And it is not because investors don't have confidence that the plan will work. It is just that the size of the company in the existing financing capacity——

The CHAIRMAN. You are back to the Heinz argument, which is a fundamental argument if you are going to raise borrowed capital. You do it because you have the equity.

That is why it is so important that the $100 million that the House requires in equity financing be increased to at least, it would seem to me, at least $300 million and more.

Every dollar of equity that you can get is pure gold because—for several reasons. You are not going to have to burden the corporation with an interest charge which is very high now, No. 1.

No. 2, you can survive setbacks with that capital.

Mr. ALTMAN. Let me make three points.

The first is that it is not clear to us that the $300 million of equity can be raised and premising a plan on something that is at best dubious doesn't strike us as good common sense.

Second, a portion of the $1.5 billion which the company generates will be sales of assets. So that won't be interest-bearing financing. Not all of this is going to be new debt.

And third, going back to the point you raised earlier, it isn't that we changed the ratio of Federal to private contributions. That is not how we ever looked at it and still don't look at it. It is simply that the original plan estimate of $2.1 proved in our judgment and the judgment of our consultants to be understated. And they needed $3 billion.

There is a $900 million difference. We thought that Chrysler could do more on its own than the $1.35 billion, but most of that $900 million—namely $750—has to be done on the basis of a Federal guarantee or the overall plan couldn't work.

And that is why our original estimate of $750 was increased to $1.5 billion.

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The CHAIRMAN. I don't for the life of me understand how a company that has a Federal guarantee and has the best judgment of the Treasury Department and its experts that it is going to succeed, and if it succeeds, it is going to make $6 a share in 2 years, it is going to make $8 a share in 3 years, it is going to make $10 a share in 4 years, can't sell for more than $7 a share.

Boy, if people have faith in that—now if they don't have it, then I can understand how you couldn't sell $300 million worth of equity.

Mr. ALTMAN. It is possible that more than $100 million of equity might be reached over the 4 years, but it is not at all clear and conditioning the overall plan on——

The CHAIRMAN. That's fine. I don't want to go back and forth on this except to establish that—the fact that we don't have confidence that we can raise more than $100 million.

FINANCING THE GUARANTEED LOAN

That does speak with considerable eloquence to the notion that the general public doesn't buy this notion that this will succeed or the experts, and then the public.

Do you have any plans to finance the guaranteed loans to the Federal Financing Bank and thus convert the Federal guarantee into a direct loan?

Mr. ALTMAN. The guarantees would be eligible for purchase by the Federal Financing Bank. But it is not our intention that they be sold to the bank.

The CHAIRMAN. Would you object to a specific statutory prohibition prohibiting you from using it for the Federal Financing Bank?

Mr. ALTMAN. I think we would object.

The CHAIRMAN. Why?

Mr. ALTMAN. There are circumstances which could arise under which none of the constituent parties would be the best recipient of a guarantee. And then the cheapest way for the Federal Government.

The CHAIRMAN. That seems to be a circumstance under which you should come back to the Congross under those circumstances and get our approval to change this guarantee to a direct loan.

It is such a big decision. It is $1½ billion. And why shouldn't we write into the legislation a prohibition against using the Federal Financing Bank and come back to us?

Maybe you can justify it. Very likely you could. Why shouldn't we consider that?

Mr. ALTMAN. I have been before you several times on the subject of direct loans. I testified this morning on the House side about it. Let me emphasize—remind you—that we agree there is no functional difference between a guarantee and a direct loan in terms of who supplies the money, who assumes the risk, and who handles the paperwork. It is functionally the same.

The reason we propose a guarantee is it is our expectation that, as in the case of New York City, it will be necessary—probably be necessary—to provide a guarantee to one of the constituent parties in order to induce a larger amount of unguaranteed lending from

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them, the same way that New York City pension funds were treated in the 1978 negotiations over that.

As you remember, it was necessary to provide a guarantee on about a third of their overall commitment to get the other two-thirds on the unguaranteed basis. That is why we would like to have one. You can't do that with a direct loan. We would like not to absolutely rule out the possibility of using the Federal Financing Bank, for example, for a portion of this.

The CHAIRMAN. There is a difference. You go to the Federal Financing Bank way, you have to go the Treasury bill. That raises the cost of money to the Federal Government. That has a much more direct impact on the service charges and burden on the Federal Government.

Mr. ALTMAN. There is no difference in terms of the market effect. If, on the one hand——

The CHAIRMAN. Isn't there a difference between it? Because, in the first case, if you go the guarantee route, it would be money from bank deposits and so forth that would be invested as compared with the Federal Government borrowing money directly.

Mr. ALTMAN. Senator, in general—I will speak to in general and then on this precise case. There is generally no difference at all between the financial market effects of a guarantee and a—which is sold into the market and one is sold into the Federal Financing Bank, from the standpoint of the investor. In both cases he is buying a full-faith-and-credit obligation of the United States, whether it is sold by the Treasury or whether it is sold by an agency which has full guarantee authority. It makes no difference to the investor. He is buying a U.S. Government piece of paper.

The CHAIRMAN. I didn't say it makes any difference to the investor. I said it could make a difference——

Mr. ALTMAN. In this case, if the guarantee is provided to a constituent party, it may be that constituent party wouldn't otherwise use those funds for purchase of securities in the market, and so there would be a lesser effect, yes. In this case, it might be a lesser effect in terms of financial markets, by going the guarantee route than the direct loan route. That is another argument for using a guarantee here. But, in general, there is no difference.

The CHAIRMAN. The administration bill requires that before the Secretary can extend the $1.5 billion in guaranteed loans, he has to obtain financial commitments or concessions from the other parties with a financial stake in Chrysler's preservation. However, the bill does not say that these commitments or concessions be legally binding. As you may know, advance legally binding commitments were obtained in the case of the New York seasonal financing loan. Why shouldn't we require that these commitments and concessions be in a legally binding form for loan to a private corporation?

Mr. ALTMAN. Mr. Chairman, we won't, under the legislation, be permitted to issue any guarantees until there are legally binding commitments in place for the full $1.5 billion for private financing.

The CHAIRMAN. All right. The bill, on page 4, line 13, says—no reference to legally binding—it says $1½ billion for "financial commitments or concessions with persons with an existing economic stake in the health of the corporation," and so on. So, if we put "legally binding," you would have no objection?

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Mr. ALTMAN. No. The commitments there is used as a generic term in our language.

The CHAIRMAN. The bill provides that to the extent practicable, the amount of unguaranteed financing be provided at the same rate as the guaranteed financing is provided. Why those weasel words, "to the extent practicable"? Why shouldn't this be a firm requirement, the amount of the unguaranteed financing be provided at the same rate as the guaranteed financing is provided?

Mr. ALTMAN. There is a greater risk on the unguaranteed basis than on the guaranteed basis. That is why in the financial markets guaranteed securities trade at much lower yields than unguaranteed. If I was a lender who was providing funds on an unguaranteed basis, whether it was to General Motors, by the way, or to Chrysler, I would expect a return to me higher than I would expect if the Government guaranteed my loan.

The CHAIRMAN. Let me ask Mr. McLean.

Mr. MCLEAN. As I understand it, this would permit the private lenders to remain outside participation for the first 2 years and the Government would in effect be providing guaranteed money up front for the first 2 years of the plan, which would give the private lenders less of a stake in sharing the viability of the plan.

Mr. ALTMAN. If you are asking—I am not sure I understood your question—but if you are asking about the "last in, first out" issue, which the Senator raised earlier, none of the private lenders would be permitted to be paid out any sooner than the Federal Government.

Now, if you treat a higher interest rate as being paid out sooner, we are referring to maturities and not interest. Technically, it is true that if an unguaranteed lender has a higher rate than the guaranteed lender, he is being paid out a little sooner. Keep in mind, this is our objective, to try to negotiate the same rates. We can't assure we can get that.

The CHAIRMAN. Let's follow that up for the record. I am not sure that I fully understand this. It says the bill provides "to the extent practicable, the amount of unguaranteed financing be provided at the same rate." I presume that is the same rate of interest.

Mr. ALTMAN. I am sorry.

The CHAIRMAN. Being drawn down at the same time with the same amount. The amount of unguaranteed financing be provided at the same rate. So, if you get half a billion dollars of guaranteed financing, you have to have unguaranteed financing of half a billion dollars at the same time. Is that right?

Mr. ALTMAN. yes.

The CHAIRMAN. Dollar for dollar. Well, that seems more persuasive, that we ought to stay with that. Otherwise, you would be able to provide the $1½ billion in guarantees and provide maybe half of that or less in unguaranteed, and the notion that you match dollar for dollar, even that would be met, although I think that is insufficient.

SIMILAR TO NEW YORK CITY

Mr. ALTMAN. We want a financing plan which, in this regard, parallels New York City, where, as you know, the unguaranteed private placements go hand in hand with loan guarantees.

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The CHAIRMAN. Then you ought to take out "extent practicable."

Mr. ALTMAN. It comes back to the basic principle of negotiating flexibility. And to the extent that we hope that that type of stricture——

The CHAIRMAN. But what this does is create a situation in which the Federal Government can really be a patsy. We could provide 60, 70, 80, 90 percent.

Mr. ALTMAN. I assure you that is not our objective.

The CHAIRMAN. Then let's take it out.

Mr. ALTMAN. Our preference is that we not be absolutely prohibited from some small deviation from the hand-in-hand approach.

The CHAIRMAN. The bill the administration has drafted would permit the Secretary to waive the customary priority under the bankruptcy laws, as provided in 31 U.S.C. 191. Why should Congress permit the Secretary to waive these protections? If Chrysler's other creditors are still fearful of a bankruptcy, even with a Federal guarantee, doesn't that tell us that the guarantee is too risky?

Incidentally, a similar waiver was not permitted Lockheed.

Mr. ALTMAN. But there was no new financing provided in Lockheed. Here you are talking about $1½ billion of new financing, as compared to zero in Lockheed.

The CHAIRMAN. You would waive the taxpayers' protection under those circumstances, under the bankruptcy laws?

Mr. ALTMAN. We might find it necessary to waive some of it in order to make sure we get the $1½ billion. We are not telling you that we have concluded that it will be necessary. It is not our objective in the negotiations to give that away. But we can't say that it won't—might not be needed on some basis. And that is why we would like the right to waive it.

The CHAIRMAN. The administration bill provides the Secretary to set the fee as low as one-half of 1 percent. Since the loan would be 100 percent guaranteed by the Federal Government, interest rates should be close to the comparable rate on Treasury securities. This, coupled with the one-half percent fee, would give Chrysler an unfair edge over its competitors.

However, the one-half percent does not nearly compensate the Federal Government for the risk it is assuming, especially in view of everything we have had today, and the opinion of many people on the outside, to indicate that your assumptions are very optimistic. Lockheed was required to pay a higher fee. It was set so that the sum of long rate plus the guarantee fee would be equal to what a private lender would charge on the private market.

Why shouldn't we require the same of Chrysler?

Mr. ALTMAN. Mr. Chairman, the objective of the guaranteed fee is obviously to be sure that the Federal Government is, on the one hand, not out of pocket on any expenses and to defray somewhat the risk—there is a risk in any loan, whether to General Motors, to Chrysler, or to anyone else—but it is not our objective to charge an amount which begins to undermine the overall plan.

The CHAIRMAN. It should be our objective, it seems to me, to do two things: number one, to provide for equality, some reasonable equality, with competitors, so you don't have a subsidized loan, anybody says we should subsidize one of the competitors here; and number two, something that would be reasonably commensurate

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with the risk. One-half of 1 percent, it seems to me, is way, way—doesn't begin to cover the risk involved there.

I would agree that it is hard to get a fee high enough to cover the risk to be practical, but it would seem to me you can make a strong case that it ought to be at least high enough so that you have—you equalize the credit cost among the competitors. This is an 11-year line of credit.

Mr. ALTMAN. I must say—this may strike you as an unorthodox answer—this proposal would provide subsidized financing to a great degree to the Chrysler Corp., whatever the interest rate. The real subsidy is the guarantee.

The CHAIRMAN. I missed that.

Mr. ALTMAN. The subsidy here is the guarantee itself, not small differences in interest rate. I don't think——

The CHAIRMAN. It's both. The subsidy of a lower rate of interest, after all, General Motors with its very high credit rating and Ford with its very high credit rating, as Secretary Miller pointed out, can't borrow money at the same rate the Federal Government can or at one-half percent, anywhere near that.

Mr. ALTMAN. I think it is heading in the wrong direction to, on the one hand, offer or propose to offer the company a very major subsidy which we think it needs for all of the reasons we have said to avoid a bankruptcy, and, on the other hand, to undercut it at the margin by a small difference in interest rate. A billion and a half of 10½ percent money for Chrysler over 10 years is—yes, is a very major substitute.

I don't think it makes a lot of sense in terms of reducing the real subsidy, really making a difference on reducing the subsidy to require——

The CHAIRMAN. We differ, but I think you have stated your position very well. And I will just go ahead.

DIVIDENDS ON STOCK PROHIBITED

The administration bill permits Chrysler to pay dividends on the stock while the loan is outstanding. Why should that be permitted? Why shouldn't they have to use all of their funds to pay the loan as rapidly as possible before paying dividends to stockholders?

Mr. ALTMAN. Dividends are prohibited.

The CHAIRMAN. Unless you waive it.

Mr. ALTMAN. It is clearly the intent that there not be dividends paid.

The CHAIRMAN. Then let's not provide the waiver.

Mr. ALTMAN. You may have a situation as follows: You stress the need for equity financing. A form of equity financing, which is more likely than common stock financing, is preferred stock financing. You can't expect to sell preferred stock, at least under most circumstances——

The CHAIRMAN. Supposing we confine the waiver to preferred stock.

Mr. ALTMAN. I think we have to look at that. I haven't thought about that before, myself. I don't have a ready answer.

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The CHAIRMAN. Supposing we did this: Supposing we provided the waiver for new stock that is issued, not on outstanding stock. You can have the classic common that could qualify and be legal.

Mr. ALTMAN. Among other things, that would require a change in the company's charter, which isn't necessarily impossible. Senator, we will genuinely take that under advisement.

The CHAIRMAN. I wish you would. I do think it is one thing to provide a guarantee; it is another thing to provide a guarantee that permits dividends to be paid to stockholders while the taxpayer is at a heavy risk.

The Lockheed loan guarantee agreement provided that all other debt was to be subordinated to the federally guaranteed loans; that is, nonguaranteed debt would not be repaid until the guaranteed loan was repaid. Under the administration's Chrysler bill, these requirements could be waived if the banks or other creditors objected. Why should Chrysler be given more generous treatment in this case than Lockheed? And why shouldn't Congress insist in the statute that the same provisions be applied to Chrysler?

Mr. ALTMAN. I think we are giving Chrysler more generous treatment. In Lockheed there was no new nonguaranteed financing. New credit was guaranteed in order to obtain it. Here we are also asking that existing credit be maintained, and not proposing that the Federal loan guarantees be put on a pari passu basis with existing debt. We are not proposing subordination of the Federal guarantees, but where there is new nonguaranteed financing, unlike Lockheed, we want the right to waive the priority if it becomes necessary to facilitate obtaining of that new financing.

It is different than Lockheed. In the area where it is the same, the proposed treatment is the same.

The CHAIRMAN. I think some members might be very reluctant to waive any protection to the taxpayer.

Mr. ALTMAN. They may be, but it is not because we are treating this differently than we treated Lockheed. It is a different case. We are treating the existing credit in both Lockheed and Chrysler the same, but in Chrysler you have the situation also of new credit.

The CHAIRMAN. Address yourself to the principle that the taxpayer, who has nothing to gain here, nothing to gain in the way at least that stockholders have and employees and so forth, should have his priority waived.

Mr. ALTMAN. I think it is a controversial issue. I am sure we don't intend to waive it unless it is absolutely necessary to put the $3 billion in total together and make the program work. We feel it is necessary to have the right to do so.

The CHAIRMAN. This may be an issue that is sufficiently grave so you ought to be required to come back to the Congress for approval. Maybe we would go ahead with it. It seems to me it is pretty fundamental.

The law allows the Secretary to waive even if Chrysler pledges no collateral. They wouldn't have to pledge collateral. You could guarantee without collateral. Why should we permit that? Lockheed was required to put up collateral. Why shouldn't we have the same rule applied to Chrysler?

If the bank won't put up the rest of the money unless the Federal Government waives its collateral, doesn't that tell us the

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company is a lot worse than we had assumed and that the taxpayer shouldn't be required to take this risk?

Mr. ALTMAN. It is in the category of the burden being on us, as the Secretary of the Treasury, to obtain security for the loans. And only if a full collateralization of the guarantees would prevent the rest of the financing being put together would we waive the necessity of it being collateralized.

The CHAIRMAN. I can see how you are going to be able to get this matching if you let others come in ahead of the Federal Government. I guarantee. But——

Mr. ALTMAN. It is not a matter of coming in ahead of the Federal Government.

The CHAIRMAN. If you don't collateralize it, if you don't segregate certain assets and make them collateral for the Federal Government, I presume the purpose of that would be to let them be available to the private lender, the unguaranteed lender.

Mr. ALTMAN. We are not proposing they be less collateralized. We are saying it may be necessary for the Federal Government to rank on an equal footing for part of this as far as security is concerned, but not on a lesser footing.

The CHAIRMAN. You should be able to back it up by an analysis of the assets that are available for collateralization. Will you do that?

Mr. ALTMAN. I believe we can provide you a breakdown, I think we can, of the assets.

[The following was subsequently submitted for the record:]

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Potential Collateral

- Consolidated and unconsolidated subsidiaries (list attached) with special reference to:
  - Chrysler Financial Corporation
  - Chrysler de Mexico
  - Chrysler Australia
  - Chrysler Realty and Subsidiaries
  - Chrysler Marine and Boat Subsidiaries
  - Remaining South American and South African interests
- Interests in other entities:
  - PSA Peugeot-Citreon
  - Mitsubishi Motors
- Properties
  - Classes
    - Realty and related (land, buildings, machinery, furniture, special tooling)*
      - Manufacturing facilities
      - Assembly facilities
      - Parts depots
      - Engineering and research facilities
      - Warehouses
      - Retail sales outlets
      - General offices and other space

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* A more detailed review of these is included the working paper "Employment and Economic Effects of a Chrysler Shutdown - Preliminary Data and Analysis" updated October 5, 1979, that we understand you have received from DOT's Transporation System Center.

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- Other
  - Inventory (including work in process and finished goods)
  - Accounts receivable
- Specific facilities or divisions
  - Kokomo transmission plant
  - Belvidere assembly facility
  - Trenton engine plant
  - New Process Gear division
  - Introl (components) operations
  - Amplex division
  - Parts distribution operations
- Revenues related to specific contracts or operations including:
  - Defense operations
  - Mitsubishi distribution agreement

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The CHAIRMAN. This company, in spite of its enormous losses this past year and its prospective losses, still has substantial net worth, and it should have assets that are available for collateral that are not going to be liened against.

SECRETARY CAN DETERMINE A WAIVER

Let me read the language on page 8:

The Secretary shall require security for the loan to be guaranteed under this act, subordination of existing loans to the corporation to the loans to be guaranteed and prohibition of the payment of dividends on any common or preferred stock issued by the corporation, unless he determines a waiver of any such requirement is necessary to facilitate the ability of the corporation or any part of it to obtain financing.

And so forth. So he can waive. It is wide open.

Mr. ALTMAN. But Senator, we have to prove to the Congress, by that language, that it was necessary to obtain the private financing. If it's not necessary, we don't have any intention of waiving it. It is not as if we are going into this with the attitude that we are going to give that away right off the top. We don't believe in it.

I assure you, we would like to have a fully collateralized senior position.

The CHAIRMAN. I am sure the taxpayer would, too. The taxpayer doesn't want to insure a situation in which he is going to have his security in what many would regard as a high risk loan, loan guarantee, for which he gets one-half of 1 percent, would have that waived by anybody. After all, I have great faith in the administration. But we can have maybe several administrations over the course of the next 11 years, and this is an 11-year guarantee.

We are going to have to think about what happens as time goes on. And as you say, you can't project very well what is going to happen in 1984, 1985, and 1986. So it would seem to me that these protections that we have shouldn't be permitted to be waived away by people in the Treasury Department or any time during the next 11 years.

Now, the bill permits the loans to be guaranteed to be outstanding for up to 11 years. As I say, only 5-year loans were permitted in the case of Lockheed. Moreover, the company's financial plan shows the guaranteed loans being repaid by 1983, which is only 4 years.

Why do you think the loan should be as long as 11 years? Are you assuming that the company will not be able to repay these loans as quickly as they say they can?

Mr. ALTMAN. I will turn to my colleagues. But I don't think it shows full repayment of the new financing by 1983.

Mr. FREEMAN. No. It doesn't.

Mr. ALTMAN. It shows a return to profitability.

The CHAIRMAN. They begin to repay by 1983.

Mr. ALTMAN. Positive cash flow in 1983. But that is not——

LOANS NOT REPAID UNTIL 1990

The CHAIRMAN. That's interesting. When do you expect them to be repaid?

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Mr. ALTMAN. We think 10-year maturity makes sense in terms of the company's overall ability to repay this very large amount of new financing.

The CHAIRMAN. You would expect the loans not to be repaid until 1990?

Mr. ALTMAN. That's right.

The CHAIRMAN. Why shouldn't that be shorter? It was shorter in the case of Lockheed. Why should it be so long in this case?

Mr. ALTMAN. Two points, Mr. Chairman. First of all, the Lockheed guarantee was an 8-year authority, 8-year guarantee, sir. It was a guarantee——

The CHAIRMAN. Five years plus renewable.

Mr. ALTMAN. But it was guaranteed of up to an 8-year credit. It could have extended to 8 years under the law. The guarantee was actually extended the full 8 years, although later terminated in 7.

Here we are talking about 10. The Lockheed case——

The CHAIRMAN. Suppose we made this—required the repayment in 5 years and made it just like Lockheed?

Mr. ALTMAN. This is late 1979. The projections show it beginning to generate cash to begin to repay debt in 1983. That is 4 years from now. It doesn't make sense, it seems to me, to require the entire Federal financing portion of this to mature right at the time that they first begin to generate cash.

I mean, the amount of cash generation is not going to be sufficient to repay $1.5 billion——

The CHAIRMAN. Does it make sense to run it out to 1990?

Mr. ALTMAN. We think so. We are talking about 4 years in which they will not be generating positive cash flow and 6 years in which the cash flow will begin to build up, and during which it will repay. I think that is reasonable.

The CHAIRMAN. Lockheed could do it in 5 years, but Chrysler can't do it for 10?

Mr. ALTMAN. The Lockheed guarantee loan was one-sixth the amount.

The CHAIRMAN. A smaller company.

Mr. ALTMAN. I must say, I don't know the relationship of the financing to the company's asset size. But my colleague Mr. Freeman points out that the loan guarantee in Lockheed, the ratio of Lockheed's size to Chrysler's was about 1 to 3.

I haven't checked those numbers myself. But just to look at the company's situation in 1983 suggests, sir, I think compellingly, that it wouldn't be able to repay $1.5 billion in that 1 year, or even the next year or year after that.

The CHAIRMAN. Why do you have to have an 11-year line of credit? They begin to repay within 5 years. You say it will be 10 years before they completely repay.

Mr. ALTMAN. First of all, the purpose, the primary purpose of the $3 billion financing is to finance the company's transformation of its product line, this complete transformation of the company to making 94 percent small- or medium-sized cars by 1983. In other words, it is for capital spending.

The CHAIRMAN. Let me make my question clear. Even if they repay—let's say they do very well. They may do better than even

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they expected. We don't know. We certainly want to get this off the books as fast as we can, and so would Chrysler.

Under the way the law is written here, the proposed law is written, they could repay in 3 or 4 years and then come back 8 years later for further—another dip, this $1½ billion——

Mr. ALTMAN. That is not permitted under the statute, as I understand it.

Mr. Lynch of our legal staff tells me that, in effect, once repaid, the program is over.

The CHAIRMAN. Where does it say that in the bill? We can't find it. I have a copy of the bill here.

Mr. ALTMAN. I will ask Mr. Lynch, who is Assistant General Counsel of the Treasury, to answer that.

Mr. LYNCH. Senator, it is in section 102(b).

The CHAIRMAN. What page?

Mr. LYNCH. Page 3 of the bill. I am not sure where it is on the printed bill. We have our own copy. Section 102(b) in the specification of the standards applicable to the operating plan, indicates that it has to operate as of December 31, 1983, without any additional guarantees being issued.

The CHAIRMAN. That is a plan, not a requirement.

Mr. LYNCH. That is an absolute requirement. Before we can give a commitment, the plan has to meet that standard——

The CHAIRMAN. You clarified it. I assume that you would not object if we made it crystal clear that that is a requirement.

One more question. The bill contains a general requirement that part of Chrysler's financing needs may be obtained at the sale of securities. Why shouldn't Congress make this much more specific?

Mr. ALTMAN. It seems to me that the House Banking Subcommittee has done so by requiring a minimum of $100 million of new equity to be raised.

The CHAIRMAN. I asked that question before. I'm sorry. I apologize. I didn't realize that the question had been asked previously.

Unless Senator Riegle has——

Senator RIEGLE. I would like the right, if later today or tomorrow to submit additional questions for the record.

The CHAIRMAN. I want to thank you very, very much. I apologize for keeping you so late. You have done an excellent job. Although I disagree with the decision of the administration, I think they certainly have an outstanding official in you and in Secretary Miller. Thank you very much.

Mr. ALTMAN. Thank you, Mr. Chairman.

[The following was subsequently submitted for the record:]

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WILLIAM PROXMIRE, WIS., CHAIRMAN
HARRISON A. WILLIAMS, JR., N.J. JAKE GARN, UTAH
[illegible]
[illegible]
ROBERT MORGAN, N.C. WILLIAM L. ARMSTRONG, COLO.
DONALD W. RIEGLE, JR., MICH. EDWARD J. [illegible]KAS.
PAUL S. SARBANES, MD. RICHARD G. LUGAR, IND.
DONALD W. STEWART, ALA.
PAUL E. TSONGAS, MASS.

KENNETH A. MC LEAN, STAFF DIRECTOR
M. DANNY WALL, MINORITY STAFF DIRECTOR
MARY FRANCES DE LA PAVA, CHIEF CLERK

United States Senate

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
WASHINGTON, D.C. 20510

November 16, 1979

Honorable G. William Miller
Secretary of the Treasury
Washington, D.C. 20220

Dear Mr. Secretary:

In order to assess the impact of providing Federal loan guarantees to Chrysler, the Committee would appreciate your best estimates of Chrysler's net earnings and funding requirements on an annual basis under alternative assumptions through 1990, the last year in which Federal loan guarantees may be outstanding. In particular, the Committee needs to consider Chrysler's long-term profitability under alternative assumptions about the growth of the auto market and Chrysler's share of that market.

I would suggest, as a point of departure, your "adjusted second base case" projections contained in your submission to the Committee with the following additional assumptions:

(1) Chrysler will continue as a full-line auto producer through the 1980's with the same production mix as was contained in its October 17 plan;

(2) The $1 billion in capital expenditures which Treasury assumes will be postponed prior to 1983 will occur in the three years following 1983;

(3) There will be one business cycle recession during the mid-1980's of at least the magnitude projected for the 1979-1980 downturn;

(4) There will be one interruption of oil supplies comparable to the 1973-74 and 1979 shortages.

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Separate projections should be prepared consistent with the above assumptions and on the basis of the following additional assumptions:

(1) Chrysler's share of the automobile market will be 9%, 10%, 11%, and 12%;

(2) The growth of automobile sales over the ten years will be low, moderate, and high.

The Committee would appreciate receiving these projections no later than November 21. Thank you for your assistance in providing this information.

Sincerely,

William Proxmire
Chairman

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THE SECRETARY OF THE TREASURY
WASHINGTON

November 21, 1979

1979 NOV 26 PM 2:16

Dear Bill:

In response to your request at last Wednesday's hearings of the Senate Banking Committee on Chrysler, please find enclosed the following materials:

1. A table projecting Chrysler net income and cumulative funding requirements through 1983 using the assumptions of Adjusted Base Case 2 together with the following series of possible scenarios: (i) Chrysler auto and truck market shares constant at projected 1979 levels of 10 2% and 10.5%, respectively; (ii) auto share constant at 10%; (iii) auto share constant at 9%; (iv auto share constant at 9% and auto market size constant at 9 million units; (v) auto share constant at 9% and auto market size at 10 million units or, alternately, share at 10% and size at 9 million units; and (vi) auto share constant at 10% and auto market size at 10 million units.

   These projections have not been run through 1990 because, in preparing our computer program we found that we could not develop a satisfactory pattern of reliable assumptions and adjustments beyond 1983. Primary problem areas in this regard include cost/revenue relationships, interest rates operating programs, and economic factors. This is one of the reasons that the Administration's proposal requires rolling 4-year operating and financing plans.

2. A list of certain Chrysler assets available for collateral, including assets that may ultimately be sold to raise funds. Waivers would be required under many of Chrysler's existing financing agreements to permit the company to pledge these assets to secure the guaranteed loans, unless similar rights in the collateral were provided to the parties to those existing agreements.

I am also enclosing for the record copies of the following items that I have provided to certain of your colleagues in response to their requests at the hearings:

1. A table requested by Senator Garn comparing Chrysler's past projections of the total domestic car market size, the company's market share, and its earnings with actual results in each year.

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2. A chart requested by Senator Stevenson depicting automotive sales in the United States during the past several years and projections through 1983 on the market assumptions of our Base Case 2 analyses.

3. A letter from Assistant Secretary Altman to Senator Riegle describing how the Administration's legislative proposal avoids windfalls to those with interests in the company and how it protects the interests of the United States.

We are still working on the additional requests of your November 16 letter, and will have responses to you as soon as possible.

Please do not hesitate to advise us of any additional information that you would like.

Best wishes.

Sincerely,

Bill

G. William Miller

The Honorable
William Proxmire, Chairman
Committee on Banking,
Housing, and Urban Affairs
United States Senate
Washington, D.C. 20510

Enclosures (5)

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Chrysler Corporation

Cumulative Funds Required Under Alternate Assumptions
Treasury Adjusted Base Case 2

Part I: Net Income (Loss)

Adjustments	Annual Net Income ($ Million) 1980	1981	1982	1983
(1) Auto and truck shares constant at 1979 levels of 10.2% and 10.5%	(730)	(221)	(362)	(520)
(2) Auto share constant at 9%	(889)	(287)	(389)	(606)
(3) Auto share constant at 10%	(736)	(60)	(104)	(256)
(4) Auto share constant at 9%, auto market at 9 million units	(933)	(499)	(781)	(1210)
(5) Auto share constant at 9%, auto market at 10 million units; or share constant at 10%, market at 9 million units	(785)	(312)	(542)	(928)
(6) Auto share constant at 10%, auto market at 10 million units	(620)	(105)	(276)	(614)

Part II: Funds Required

	Cumulative Funds Required ($ Million) 1980	1981	1982	1983
(1) Auto and truck shares constant at 1979 levels of 10.2% and 10.5%	1646	2266	2935	3742
(2) Auto share constant at 9%	1763	2583	3463	4505
(3) Auto share constant at 10%	1649	2252	2847	3545
(4) Auto share constant at 9%, auto market at 10 million units	1795	2791	4036	5648
(5) Auto share constant at 9%, auto market at 10 million units; or, alternately, share at 10%, market at 9 million units	1686	2496	3504	4836
(6) Auto share constant at 10%, auto market at 10 million units	1564	2169	2912	3935

* Note: All projections are overstated to some degree. While the analysis adjusts variable costs in relation to lower revenue, it keeps fixed costs constant. Yet, even fixed costs are subject to control and could be reduced if sales are projected to remain low.

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Potential Collateral

- Consolidated and unconsolidated subsidiaries (list attached) with special reference to:
  - Chrysler Financial Corporation
  - Chrysler de Mexico
  - Chrysler Australia
  - Chrysler Realty and Subsidiaries
  - Chrysler Marine and Boat Subsidiaries
  - Remaining South American and South African interests
- Interests in other entities:
  - PSA Peugeot-Citreon
  - Mitsubishi Motors
- Properties
  - Classes
    - Realty and related (land, buildings, machinery, furniture, special tooling)*
      - Manufacturing facilities
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      - Engineering and research facilities
      - Warehouses
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* A more detailed review of these is included the working paper "Employment and Economic Effects of a Chrysler Shutdown - Preliminary Data and Analysis" updated October 5, 1979, that we understand you have received from DOT's Transporation System Center.

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- Other
  - Inventory (including work in process and finished goods)
  - Accounts receivable
- Specific facilities or divisions
  - Kokomo transmission plant
  - Belvidere assembly facility
  - Trenton engine plant
  - New Process Gear division
  - Introl (components) operations
  - Amplex division
  - Parts distribution operations
- Revenues related to specific contracts or operations including:
  - Defense operations
  - Mitsubishi distribution agreement

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11/16/79

CHRYSLER CORPORATION

COMPARISON OF PROJECTIONS TO ACTUAL 1975 - 1978*

Year	Date of Projections**	U.S. Car Industry*** (Millions of Units) Projection	Actual	Chrysler's Share Projection	Actual	Net Earnings ($ Millions) Projection	Actual
1975	12/74	5.6 - 8.0	7.1	16.0%	14.9%	$(75) - $100	$(260)****
1976	8/75	7.0 - 9.0	8.7	16.5%	15.9%	$(55) - $316	$423
1977	3/77	8.4 - 9.4	9.2	16.0%	14.3%	$190 - $368	$163
1978	3/77	8.5 - 9.5	9.4	16.5%	13.3%	$204 - $379	$(205)
1979	3/78	8.8 - 9.5	n.a.	15.5%	n a.	$109 - $278	n.a.

* Information submitted by Chrysler to Treasury on November 16, 1979.

** These projections were prepared by Chrysler for financial institutions that have relationships with the company.

*** Excludes imports.

**** Includes loss on disposal of Airtemp Division of $55 million that was not included in the projection.

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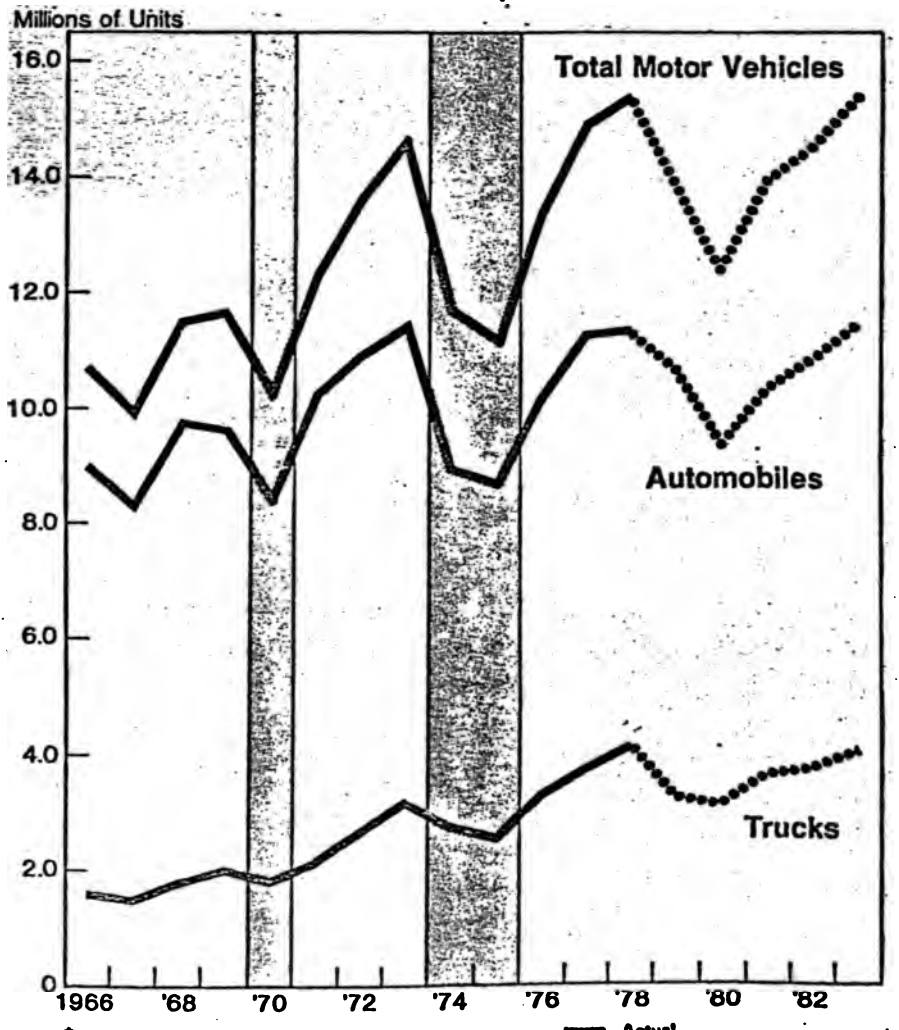
Total Annual Retail Sales of Motor Vehicles in the United States*



* Includes imports of both cars and trucks

Note: Shading represents 1970 and 1974-75 recessions

Actual

Projected Sales Path Underlying Treasury Assesment

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THE DEPUTY SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

November 23, 1979

Dear Bill:

Following up your November 16 letter, enclosed are tables projecting Chrysler's annual net earnings and cumulative funding requirements on the basis of Treasury's Adjusted Base Case 2, as further adjusted for the following as you requested: (i) Chrysler market shares of 9%, 10%, 11%, and 12%; and (ii) industry sales growths of low, moderate, and high.

As we indicated to you earlier, we have been unable to develop projections through 1990 because post-1983 assumptions, in our judgment, would be unreliable. Our projections through 1983, however, do reflect the type of adverse circumstances that you have raised:

- Each begins from a relatively low base that reflects the current business downturn and 1979 shortages, and assumes that these will persist through 1980.

- Each assumes a level trend for each projection which averages out the deviations both above and below the trend line that can be expected to occur. Chrysler's high leverage and product mix appear to have made it very sensitive to these deviations. Historically, it has benefitted more than its competitors from market increases and been hurt more by decreases.

Since our projections extend only through 1983, they also do not reflect adjustments 2, 3, and 4 that you asked us to address for the mid-1980s.

I hope that this response is useful.

Best regards.

Sincerely,

Bob Carswell

Robert Carswell

The Honorable
William Proxmire, Chairman
Committee on Banking, Housing,
and Urban Affairs
United States Senate
Washington, D.C. 20510

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11/21/79

Chrysler Corporation

Net Earnings and Cumulative Funds Required Under
Alternate Assumptions of Treasury Adjusted Base Case 2

Part I: Net Income

Revised Auto Market Assumptions*		Annual Net Income (Loss)*** ($ Million)			
Chrysler Market Share	Sales Growth**	1980	1981	1982	1983
9%	Low	(885)	(351)	(540)	(856)
	Medium	(885)	(263)	(375)	(591)
	High	(885)	(178)	(205)	(306)
10%	Low	(734)	(152)	(281)	(544)
	Medium	(734)	(56)	(98)	(269)
	High	(734)	41	91	69
11%	Low	(581)	47	(19)	(231)
	Medium	(581)	152	179	92
	High	(581)	258	389	441
12%	Low	(430)	246	241	81
	Medium	(430)	360	457	434
	High	(430)	477	684	816

* Assumptions for truck share and truck market growth remain unchanged from those of Adjusted Base Case 2.

** All cases include the Adjusted Base Case 2 assumption that industry sales through 1980 will remain low at 9.3 million units. The "medium" growth pattern retains the assumptions of Adjusted Base Case 2: sales of 10.3, 10.8, and 11.4 million units in 1981, 1982, and 1983, respectively. The "low" growth pattern assumes only 50% of the increase from year-to-year of Adjusted Base Case 2, with resulting industry sales of 9.8, 10.0, and 10.3 million units in those respective years. The "high" growth pattern assumes 150% of the increase from year-to-year of Adjusted Base Case 2, with resulting industry sales of 10.8, 11.6, and 12.6 million units in those respective years.

***All loss and funding requirement projections are overstated to a degree. The analysis adjusts only variable costs in relation to lower revenue, but even fixed costs are subject to control and could be reduced if sales are projected to remain low.

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Part II: Funds Required*

Revised Auto Market Assumptions		Cumulative Funds Required ($ Millions)			
Chrysler Market Share	Sales Growth	1980	1981	1982	1983
9%	Low	1759	2628	3643	4917
	Medium	1759	2560	3422	4448
	High	1759	2494	3199	3959
10%	Low	1648	2321	3080	4047
	Medium	1648	2246	2836	3527
	High	1648	2172	2587	2981
11%	Low	1535	2012	2513	3172
	Medium	1535	1931	2248	2604
	High	1535	1850	1973	2004
12%	Low	1423	1705	1950	2302
	Medium	1423	1617	1661	1683
	High	1423	1528	1361	1027

* See footnotes of preceding table for explanation of assumption

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- ☒ SECRETARY (S)
- ☐ D/SECRETARY (D)
- ☐ U/SEC. (MA) (M)
- ☐ OTHER (Specify)

FROM: Proxmire, William (USS)

REPS:

CLASSIFICATION
- ☐ UNCLASSIFIED ☐ SECRET
- ☐ CONFIDENTIAL ☐ TOP SECRET
- ☐ OTHER (Specify)

SUBJECT:
The Committee would appreciate Treasury's best estimates of Chrysler's net earnings and funding requirements on an annual basis through 1980. Would appreciate these projections by Nov. 21

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ACTION REQUIRED

DUE DATE 11/20

- ☐ APPROPRIATE ACTION
- ☒ DIRECT REPLY
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MEMO TO:

REPLY FOR SIG. BY: Secretary

SCHEDULE PROPOSAL FOR:

BRIEFING PAPER FOR:

COMMENTS/SPECIAL INSTRUCTIONS

SUBSEQUENT ROUTING/ACTION

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United States Senate

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
WASHINGTON, D.C. 20510

November 21, 1979

The Honorable G. William Miller
Secretary
U. S. Department of Treasury
Washington, D.C.

Dear Mr. Secretary:

As you know, the Committee on Banking, Housing and Urban Affairs has been holding hearings on legislation to provide loan guarantees to the Chrysler Corporation. Based on information obtained in the course of the hearings to date, it is apparent that the Committee will have to have certain additional information before it can proceed to formal consideration of a Chrysler loan guarantee bill. Since a mark-up is presently scheduled for Thursday, November 29, we are asking that you make the information requested below available to the Committee by Tuesday, November 27. Otherwise, it will be difficult for the Committee to hold to the November 29 date.

First, it is vital that the Committee have a fully up-to-date report on the Chrysler Corporation's financial condition and its potential financing needs. Press reports suggest that the sales figures and financial condition of the automobile industry as a whole are worsening rapidly. The Committee was told, for instance, that Chrysler's current share of the car market is about 7 percent, far less than the 10.2 percent projected for 1979 in the October 17 plan. This would suggest that Chrysler's losses are also accelerating, and that its year-end total loss may well exceed the $1.073 billion projected on both September 15 and October 17. Since the various cases presented to the Treasury by Ernst and Whinney indicated that the company's financing needs through 1983 could run as high as $4.8 billion, and since none of those cases assumed Chrysler's falling more than 90 percent behind plan projections (a circumstance which would certainly occur if, for instance, market

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share stayed at 7 percent), it is apparent that estimates of maximum financing needs may well have to be raised. Accordingly, we request you provide the following information, which we would expect to be based on both data obtained from the company and your own analyses (through your consultants) of such data:

-- weekly figures on Chrysler's losses since the end of the third quarter, and up through Thanksgiving, or as close to that date as possible;

-- revised estimates of total losses for calendar year 1979;

-- revised estimates of Chrysler's net earnings and cumulative financing needs through 1983, factoring in such possibilities as a further decline in the automobile market due to a protracted cut-off of Iranian oil and a reduction in Chrysler's market share to 7 percent, which would presumably bring the sales achievement levels to considerably below the 90 percent minimum projected in the Secretary's testimony. In addition, we would like your best estimates of Chrysler's net earnings and financing requirements through 1990 under the assumptions outlined in Senator Proxmire's letter of November 16.

Second, the Committee must have detailed information on the specific components of the aggregate amount of at least $1.5 billion in non-Federally guaranteed assistance to the Chrysler Corporation required to be provided under section 102(c) of S. 1965, the Administration's bill. The issue of the availability and composition of this non-Federal share obviously lies at the heart of any workable financing package for Chrysler. Unless the Committee has at its disposal specific indications of what amounts are going to come from what sources in what form, as it did in the case of the New York City Loan Guarantee Act, then it will be impossible for the Committee to act responsibly on this legislation. While we understand that binding legal commitments could probably not be negotiated until after the passage of a loan guarantee bill, it should nonetheless be possible to provide the Committee with a list of the non-Federal components of the Chrysler financing package that is a great deal more specific than any previously supplied. To give some further indication of what the Committee will expect, let me refer to categories provided in the bill and in your testimony:

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(i) Financial commitments or concessions from persons with an existing economic stake in the health of the corporation in excess of their outstanding commitments or concessions as of October 17, 1979:

-- with respect to banks and other creditors, the Committee should know how much they intend to provide in the way of new loans; the interest rate to be charged on those loans (in relation to the prime); proposals to restructure outstanding debt and reduce interest rates thereon and the dollar amount of savings to the company to be achieved by such debt service reductions; and the amount of existing loans that would be subordinated so as to facilitate a like amount of additional, more senior borrowings.

-- with respect to labor unions and Chrysler employees, the potential amounts to be obtained from additional concessions on compensation and other benefits, especially in light of Council on Wage and Price Stability Chairman Kahn's observations regarding the Chrysler UAW contract and its noncompliance with the President's wage guidelines.

-- with respect to State, local and other governments, the exact amount of aid to Chrysler that would be provided through tax concessions, grants, direct loans, or other means.

(ii) Capital to be obtained through merger, sale of securities, or otherwise after October 17, 1979. The Committee is particularly concerned about the heavy debt burden already borne by Chrysler and the need to obtain additional equity financing if the company is to have any reasonable prospect of returning to financial health. You yourself refer in your statement to the importance of "an equity capital infusion". Accordingly, the Committee would appreciate receiving full details on the amounts of equity capital which Chrysler can expect to raise in the context of a financial package involving Federal loan guarantees from such parties as existing shareholders and other investors, employees, suppliers, dealers, and others, as well as from any prospective offerings in the market.

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(iii) Cash obtained from the disposition of assets of the corporation after October 17, 1979. The list should identify specific assets which might be sold and the potential market value, both under current conditions and in the event of a "distress sale".

There are a couple of other concerns which the Committee is likely to have in this regard. One is that it is probably in our mutual interest that the list of components of the non-Federal share of a Chrysler financing package add up to more than the $1.5 billion minimum specified in the legislation. This would be true in part because this would give some added assurance that the requirement in the legislation would be met, in the event that any of the components identified did not materialize. A still more important reason is the likelihood that the Chrysler Corporation's financing needs may substantially exceed the $3 billion provided under the Administration bill, and the possibility that the Committee might well then take the position that any such additional needs must be met wholly through non-Federal sources.

We are also concerned about what is the appropriate level of asset sales as a component of the overall financing plan. In one sense, asset sales provide a source of free money to the company compared to bank loans or other forms of borrowings. However, asset sales can also erode the future earnings of the company and impair the ability of the Federal government as well as other potential creditors to obtain adequate security for its guarantee. Accordingly, we would appreciate a detailed description of any asset sale plan and its net impact on profits and on the security for the Federal guarantee.

A third major concern of the Committee is that the list of components of the non-Federal share of the Chrysler financing package be accompanied by a detailed explanation from the Treasury as to how the value of these non-Federal financing sources has been and will be calculated. The dollar values assigned may often be meaningless unless accompanied by full justification. Thus the Committee should receive sufficient

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supporting data to indicate for eac[illegible]t the assistance provided is a genuine contribution by the pa[illegible]ant it involved, that it is over and above amounts previously provided to the company, and that only the amounts which can be directly applied to reducing Chrysler's projected cash shortfall are counted. Obviously this will require the definition of a clear baseline against which to measure the additional financing components, and, therefore, the Treasury should provide full justification for the choice of the October 17 date, along with an indication of any problems this choice might pose or any questions it might raise. Finally, it should be pointed out that in his elaboration of the plan to meet the financing needs of the corporation, the Committee will assume that "corporation" means what it is defined to mean in S. 1965, which is the "Chrysler Corporation and its subsidiaries and affiliates".

Since we believe that the question of measurement of the non-Federal share is crucial, a couple of illustrations should illustrate some of our concerns. To take an obvious example, it is clear to us than an employee stock ownership plan (ESOP) established with a portion of the guarantee loans should not be considered an equity contribution by the employees but rather simply an extension of the guaranteed Federal share which has no effect on the non-Federal share. Is this the understanding of the Treasury?

Another example could be afforded by the statement of the Governor of Michigan that his state will purchase Chrysler cars and trucks to be used as prizes in the Michigan lottery. Here it should be apparent that the full amount spent for those cars cannot be counted as a contribution from the State of Michigan. The only contribution would be the difference between the cost of production and the price paid by the State, and even that contribution would be somewhat clouded by the assumption that those cars would otherwise have been sold elsewhere, and possibly with a larger profit margin.

One final example which may require some scrutiny by both the Committee and the Treasury concerns the calculation of the banks' contributions after the October 17 baseline date. As you know, on November 2, 1979, a credit agreement in the amount of about $935 million was concluded between Chrysler Financial and some 195 banks. This agreement represents a reduction from about $1.6 billion in lines of credit to Chrysler Financial this summer. Given the baseline date and the definition

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of corporation included in your bill, this should mean that the banks start off with a negative $700 million contribution that has to be made up before any positive contributions can be counted. Certainly the Committee is concerned about this loss of financing to the corporation as a whole, since I am sure you will agree it is vital that both domestic and foreign banks maintain their present commitments, before any additional commitments can be calculated.

As a fourth concern, the Committee would like the Treasury to provide some materials that should be helpful in evaluating the October 17 Chrysler plan. One would be an analysis and evaluation of the automobile industry aimed at answering the specific question of whether or not the U.S. domestic automobile industry is, relative to other industries in the U.S., expected to be a growth industry or a declining industry over the next 5, 10, and 20 year periods. The analysis should include, but not be limited to, the following quantitative measures:

-- percentage of gross national product
-- percentage of gross domestic product
-- percentage of corporate earnings
-- percentage of export sales
-- percentage of domestic investment
-- percentage of consumer purchases.

Since the automobile industry has generally been considered to be a growth industry, the Committee would appreciate having some analyses of these figures, and of whether they call into question any of the assumptions in the Chrysler plan. In addition, the Committee would like to see the background materials from which these analyses may be drawn.

To raise another issue in this context, accept for the moment the assumption in the October 17 plan that Chrysler will in fact be able to increase its market share from 10 to 12 percent. Chrysler now claims that it needs Federal assistance because its relatively weak competitive position precludes it from having enough funds to spend on research and development and retooling. Given current projections of GNP for the next five years, along with the profit projections in the Chrysler plan as modified by the Treasury's consultants, how likely is it that Chrysler's competitive position in 1985 will be sufficient to allow it to meet future capital needs without further Federal assistance?

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Fifth, would you please provide the Committee with a representative sampling of investment banking write-ups of Chrysler over the past 15 years. We would like to have some idea of whether warning signals about Chrysler have been around for some time. In addition, the Committee would like to be informed about any materials or draft materials submitted to the Treasury over the past few months by Chrysler's investment bank advisors, such as the draft Lehman Brothers Kuhn Loeb letter referred to in the hearings.

Sixth, the Committee would like to have additional information regarding the composition of Chrysler's equity base. What is the average length of the holding of shares of Chrysler common stock for current shareholders over all; for shareholders excluding employees; and for employee shareholdes alone (broken down into current employees and retired employees). What are the terms of Chrysler's employee stock purchases; is there now a "special deal" (stock option plan, etc.) or was there at one time?

There are other things which the Committee ought to have before it in considering Chrysler loan guarantee legislation. These include a detailed Chrysler operating plan and a report on alternative investment strategies that might reduce the company's capital needs. We understand that both of these are due to be provided to the Treasury by mid-December, and we suggest that the delivery date be moved forward if more expeditious action by the Committee is desired. It is also important the the Committee be provided with some explanation of how the Federal guarantees will be used if authorized: when they will be provided, in what amounts, in conjunction with what amounts of financing from non-Federal sources, whether the guarantees will be applied to long-term loans or both, and in what proportions; and what other terms and conditions may be applied to the guaranteed loans.

We appreciate your moving to provide this information to the Committee by the stated date, November 27.

Best regards.

Sincerely,

William Proxmire
Chairman

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THE DEPUTY SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

NOV 27 1979

Dear Bill:

I am writing in response to your letter of November 21 concerning Chrysler Corporation.

First, concerning the company's current financial condition:

- We have asked Chrysler to respond directly to you regarding its recent losses and any revised estimate of its loss for calendar 1979, and understand that it has done so.

- Reliable projections of net earnings and cumulative funding requirements on Adjusted Base Case 2 as adjusted for a Chrysler market share of 7% cannot be produced without drastic revisions of Chrysler s operating and capital plans. The Ernst & Whinney model assumptions would not produce a reliable result for a permanent change in market share of this dimension. Sales at that level would obviously result in losses and capital spending changes significantly different from those of our Adjusted Base Case 2. On November 23, we responded to your November 16 letter which sought additional projections in ranges where the results are at least potentially reliable; and we understand that you have received our answer.

Second, you asked for detail on the components of the aggregate $1.5 billion in non-Federal financing. Secretary Miller has already testified that the uncertainty on the specifics of Congressional action, the complexity of the financing plan required, the changing condition of the industry and of Chrysler, and the inability of Chrysler thus far to obtain adequately specific commitments from any party, has made it impossible to formulate a definite financing plan.

Put simply, Federal enabling legislation must be enacted to assure participation by the constituents; once enacted, such participation can be expected The Federal interest is protected by requiring that at least $1.5 billion be obtained before any guarantee can be committed. However it is possible to make some generalizations that may prove helpful to the committee.

Central to any plan is the requirement that Chrysler obtain substantial amounts of new equity or concessions equivalent to equity. The bill reported by the House Banking Committee

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requires that at least $100 million be obtained from the sale of new equity and that an additional 10 million shares be purchased by Chrysler employees who must pay two-thirds of the value of the shares. These amounts clearly represent minimum levels if Chrysler is to avoid a crushing interest burden. Concessions from dealers, suppliers and employees other than through the purchase of stock) would provide the equivalent of equity, and significant amounts must be obtained from these sources if Chrysler is to survive In the aggregate, we would expect the contribution from equity and concessions together to aggregate at least $500 million.

State, local and other governments clearly also will not act until the Federal role is clear, but they can be expected to do so upon the enactment of enabling legislation. We have had discussions with several of the involved jurisdictions, including Michigan and Detroit, and they will attempt to participate. As your letter makes clear, this assistance must provide financial benefit to Chrysler and not be cosmetic or simply substitute for financing available elsewhere at market rates. It would not be unreasonable to expect contributions aggregating at least $250 million from this quarter. This amount does not include the participation possible from Canada, which may be significant but also may involve some loss of U.S. jobs.

Concessions from the banks and other present lenders to Chrysler will also be necessary. At present extensions of bank credit to the parent corporation aggregate $1.3 billion. Yet, this is spread among hundreds of banks and the exposure to many of them, particularly when tax deductibility of losses is taken into account is comparatively small Assistant Secretary Altman has had discussions this week with representatives of 102 banks Some took the view that unless they are assured of clear Congressional support as well as a satisfactory overall financing plan, they would be willing to take their chances in bankruptcy rather than commit to any new lending or modifications of present terms Some, such as Citibank, expressed doubts that they would participate under any circumstances. Others have indicated they would participate only if Chrysler were downsized and would therefore want to review the alternative operating plans Chrysler is preparing. Most have questions whether they would participate -- at least to the extent of providing new credit -- if Federal support were to be senior in status or similarly secured.

Under those circumstances, we do not think it is possible to set the particulars of bank participation. Meaningful concessions can only be negotiated when Congressional intent is

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clear and further progress is made with others. As far as their present commitments are concerned, the banks and other financial institutions appear to be maintaining them for the moment.

Sales of assets will provide real cash flow assistance if the assets sold are not integral to the future viability and profitability of Chrysler. In part, that is a function of prices that can be obtained for each particular asset. A forced sale at a distress price would not maximize Chrysler's chances of survival Thus the list of assets to be disposed of will change as the plan develops. Prices obtainable will rise as Chrysler's chances of survival improve. In general, it is our view that asset sales must be maximized and assets directly relating to the core domestic automobile manufacturing capacity are the only ones where the case for retention is clear. We are sensitive to your concern about the effect of asset dispositions on the ultimate viability of the company and will be attentive to this in any financing package However we believe that the company has marketable assets that can provide a major source of cash and where continued ownership is not crucial to the company s long-term viability. The wide range of potential market values makes it inappropriate, in our judgment, to publish a list of assets with our assessment of the value that might be realized for each. These values should be developed through negotiation.

Nonetheless, we believe that it would not be unreasonable to expect that at least $750 million of the non-Federal financing needs could be satisfied from a combination of contributions and concessions by banks and other financial institutions and the proceeds of asset dispositions.

Concerning the prospects of equity financing or other assistance from an unrelated party, there is little that can presently be said. If Chrysler's survival is assured, those who may now hope to pick up bargains in a Chrysler reorganization may become willing to purchase an interest in the company or to participate in a joint venture with it. Certainly, any plan should not preclude such a possibility.

Like you, we believe that the company should obtain more than the proposed $1 5 billion in non-Federal financing to assure it flexibility to meet possible contingencies This is contemplated by our legislative proposal, which views the $1.5 billion as a minimum amount and requires the company to submit rolling 4-year operating and financing plans which adequately demonstrate its ability to meet its financing needs. Furthermore, as a condition to each guarantee commitment and

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each guarantee, our proposal expressly requires the Secretary to determine that the financing plan meets the company's needs and that there is adequate assurance as to the availability of the financing contemplated. However, the potential non-Federal financing above $1.5 billion will depend on the composition of the basic $1 5 billion which is obtained. This composition will affect the company's remaining resources and ultimate needs.

The third question you raise concerns the method under which these commitments would be valued. We believe that issues will arise generally only in the context of concessions and in determining whether sources of financing were included in the assumed base. Our approach to concessions would be to look to their value, i.e., cash savings and include only those that would not be recouped by the constituent The cash savings would be measured against Chrysler s October 17 submission which Treasury used as the base for our own analysis of the company's financing need That plan is adequately specific on the company's projected resources and needs so as to minimize the computational issues. It is also an equitable date which does not unduly favor Chrysler. For example, contributions, such as the $50 million loan from Michigan Blue Cross-Blue Shield, would not be counted against the $1.5 billion of required non-Federal financing, because it was received before October 17. Your three examples concerning the non-Federal financing confirm the need for the flexible approach taken by the Administration's bill.

In this regard, we agree that the word "Corporation" in Section 102(c) of the Administration's bill has the meaning stated in Section 101(a)(ii) of the bill and the "base line" should look to the resources of the company and its subsidiaries and affiliates. However, this should be applied in the context of the company's October 17 submission We have not included Chrysler Financial in the "base line because it has been financially self-sufficient in recent years and the October 17 submission assumes that it will continue as such Our Adjusted Base Case 2 therefore assumes no need for Federal or other financing assistance for this subsidiary. Furthermore, our overall proposal is based on the total amount of resources, and not the specific source and thus, permits replacement of existing resources by another source Although the banks reduced their bank lines by approximately $700 million that amount of financing was replaced by an equivalent amount in financing by Household Finance and GMAC in the form of receivables purchase facilities.

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Fourth, with respect to your questions concerning the future growth of the auto market, enclosed is a paper prepared by our Office of Economic Analysis that summarizes several forecasts by private firms of the auto industry relative to the economy and other industries over the next 5, 10 and 20-year periods, and includes observations of our staff The Treasury analysis provided in Secretary Miller's testimony before your committee reflects our view of these forecasts specifically through the 1983 period.

On Chrysler's ability to operate without additional Federal assistance after 1985, Secretary Miller testified that the company's plans and the current and anticipated business environment indicate that Chrysler has reasonable prospects for financing self-sufficiency after December 31, 1983. The Administration's legislative proposal would require continued monitoring of those prospects through its required rolling 4-year operating and financing plans.

Fifth, you also asked for sample "writeups" on the company by investment banking firms over the past 15 years We have asked Chrysler to provide these to you, and understand they have done this. Treasury has not received any nonpublic materials from any investment banking firm, other than the draft letter that Peter Peterson appended to his testimony before your committee.

We also have asked Chrysler to provide you information on its shareholders and ownership turnover, and the terms of its employee stock ownership plans and option arrangements. We understand that the company has also done this.

Sixth, you also requested a detailed operating plan and a report on alternative Chrysler strategies to reduce its capital needs. The company has again informed us that a more detailed plan for 1980 and a capital reduction strategy will not be ready for review by its Board until mid-December Our judgment is that it would be imprudent to delay Congressional legislative action until their receipt, because an expression of Congressional intent is needed to stabilize the company's situation. Furthermore we think that the company's October 17 submission, with the adjustments proposed in our testimony, represents an adequate basis for the development of a plan, and one which can be funded with the $3 billion financing we have proposed Our adjustments already require that the company reduce its capital requirements by at least $1 billion without impairing its viability.

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Lastly, you asked about the form and timing of Federal guarantees. Here, the specifics depend on the negotiations among the company, its constituents and Treasury, because the amount and timing of Federal assistance is obviously related to the amount and timing of the non-Federal portion. Beyond that, the Administration's proposal restricts the outstanding amount of Federal guarantees so that they may not be proportionately greater than the non-Federal funding obtained and not repaid earlier.

We hope that this response is useful.

Best regards.

Sincerely,

Bob Carswell

Robert Carswell

The Honorable
William Proxmire, Chairman
Committee on Banking, Housing,
and Urban Affairs
United States Senate
Washington, D.C. 20510

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LONGER-TERM OUTLOOK FOR THE MOTOR VEHICLE INDUSTRY

A wide band of possible error must be attached to any longer-term forecast of economic activity. This is especially true for particular industries, such as motor vehicles. Demand for motor vehicles is highly cyclical in nature, it is influenced by the uncertain price and availability of fuel, and the industry has been subject to a number of regulatory requirements that are contributing to change in the nature of the product and are adding to its relative price. The following is designed to provide perspective to longer-term movements. Because of the cyclical nature of the motor vehicle industry (including trucks, which increasingly have been purchased as substitutes for automobiles), analysis is largely in terms of averages over extended periods of time. Where data are available, they are presented in constant dollar terms, because prices of motor vehicles have tended to rise substantially less during the Post-War period than general price levels.

Overall, motor vehicle demand and production during the next decade is projected to grow slightly faster than the overall economy. However, growth will not be as rapid relative to overall activity as it was during the 1950's and 1960's when the industry was undergoing strong expansion. Reasons for the projected moderate performance ahead include:

o Increased saturation of markets. In 1950 there was one car on the road for every three persons 16 year and older.

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By 1970 there was one car for each 1-3/4 persons, and by 1978 this figure was close to 1-1/2 persons of driving age per car.

- Rising relative price of gasoline and other costs of automobile operation. The relative price of gasoline declined by 1.6 percent per year from 1960 to 1972. Since then gasoline prices have increased more rapidly than other prices.

- Slower growth of the driving age population.

Trends in motor vehicle sales

The tabulation on the next page presents data on trends in sales of motor vehicles, plus the Data Resources, Inc. forecast for the next decade (DRI "trendlong" forecast made in September of this year). Sales of trucks (the bulk of which are light trucks) have registered the largest increases during the late 1960's and 1970's. They are forecast to continue to do so through the 1980's, though sales are not projected to grow as rapidly as in the past. Overall, sales of motor vehicles are forecast by DRI to grow at a yearly rate of about 2-1/2 percent taken between the average of the five-year spans 1975-79 and 1985-89. This would be about the same rate as during the 1970's but substantially less than earlier in

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the Post-War period. Chase Econometrics, in its long-term forecast of August, projects growth of automobile sales during the 1980's at a slightly slower rate than DRI.

Trends and projections of
retail sales of motor Vehicles

Period	Automobiles	Trucks	Total
	Average for period, millions of units		
1955-59	6.0	n.a.	n.a.
1960-64	7.1	1.1	8.2
1965-69	9.2	1.7	10.9
1970-75	10.0	2.4	12.4
1975-79*	10.4	3.2	13.5
1980-84 (DRI forecast)**	10.9	3.8	14.7
1985-89 (DRI forecast)**	12.3	5.0	17.3
	Annual percentage rate of growth from preceding five-year period		
1960-64	3.2	n.a.	n.a.
1965-69	5.3	8.8	5.8
1970-74	1.7	7.1	2.7
1975-79*	0.7	6.0	1.8
1980-84 (DRI forecast)**	1.0	3.5	1.6
1985-89 (DRI forecast)**	2.5	5.9	3.3

* Includes estimate for 1979.
** Data Resources, Inc. "trendlong" forecast of September 1979.

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Spending for motor vehicles in relation to GNP

The tabulation below presents (1) real consumer spending on motor vehicles and parts in relation to total real consumer spending, (2) real business purchases of automobiles and trucks in relation to total real business capital spending, and (3) the combined total of consumer and business purchases of motor vehicles as a percent of real GNP.

Period	Real consumer expenditures for motor vehicles and parts as percent of total real consumer spending	Real business purchases of autos and trucks as a percent of total real business capital spending	Real consum and busines purchases c motor vehic and parts a percent of real GNP
	(average for period)		
1950-59	5.7	11.5	4.5
1960-69	5.9	11.5	4.7
1970-74	6.4	14.3	5.4
1975-79*	6.5	17.6	5.9
1980-84 (DRI forecast)**	6.3	n.a.	n.a.
1985-89 (DRI forecast)**	6.8	n.a.	n.a.

* Includes estimate for 1979.
** Data Resources, Inc. "trendlong" forecast of September 1979.

Forecasts of real business purchases of automobiles and trucks are not available. DRI forecasts real consumer spending on motor vehicles and parts to increase slightly as a percent of total real consumer spending toward the end of the 1980's (and also to increase as a percent of real GNP). Since sales of trucks are expected to grow faster than overall real GNP,

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the total of motor vehicle sales would also be rising relative to GNP. (Because gross domestic product and gross national product move closely together, the same analysis would apply if translated into terms of GDP.)

Capital spending by the automobile industry

Figures on fixed capital spending by the motor vehicle industry are available from the survey conducted by the Commerce Department of business spending for plant and equipment. Data are in nominal terms only. Capital outlays by the motor vehicle industry have been relatively large in the most recent years, reflecting the major retooling effort needed to downsize automobile product lines. For the period 1977 through 1979, the motor vehicle industry accounted for 3 percent of total plant and equipment outlays by all private nonfarm establishments. Data Resources, Inc. projects motor vehicle industry spending to remain at a relatively high level.

Plant and equipment spending

Average for period	Motor vehicle industry as percent of all nonfarm establishments
1950-59	2.8
1960-69	2.4
1970-74	2.1
1975-79	2.6
1980-84 (DRI forecast)*	2.8
1985-89 (DRI forecast)*	2.9

* Data Resources, Inc. "trendlong" forecast of September 1979.

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Exports and imports

Excluding trade with Canada, for which special arrangements have been developed, exports take a relatively small share of total U.S. output of motor vehicles. In 1978, 1-1/2 percent of automobiles and 4 percent of trucks produced in this country were exported to countries other than Canada. Such exports generally trended downward until the most recent years when currency realignments and the production here of smaller model cars led to a reversal of that trend. Exports of automobiles to countries other than Canada increased by 27 percent in 1978 and for the first eight months of this year were up from a year earlier by 33 percent. Exports of trucks increased last year by 27 percent but have declined so far this year.

The import share of automobile markets has trended upward. Based on units sold, it averaged 15.3 percent during the 1970-74 period and 17.4 percent during the four years 1975-78. During the first nine months of this year, a shift in the composition of demand pushed the share upward to 22.0 percent. Imports accounted for 8.4 percent of truck sales in 1978 and 13.4 percent during the first eight months of this year. These imports are largely of small trucks designed for personal as well as business use.

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For the longer-term, import shares, as well as exports, will depend on relative currency movements and relative rates of growth of productivity and employee compensation here and abroad. Data Resources, Inc. projects a decline in the import share of the auto market to about 12 percent by the end of the 1980's. This is based on the assumption that foreign producers will be induced to shift operations to this country. Chase Econometrics projects that the import share of the auto market will trail downward to 17-1/2 percent by the end of the 1980's from around 20 percent early in the decade.

Profitability

The motor vehicle industry has had a record of relatively strong profitability. Profits on a before-tax basis (but excluding inventory profits) averaged 17.5 percent of gross product originating in industry during the 1970's, compared with 10.1 percent for all domestic nonfinancial corporations.

Profits before tax as percent of gross product originating*

Period	Motor vehicles	Domestic nonfinancial corporations
	(-----average for period------)	
1950-59	28.9	17.8
1960-69	28.3	14.3
1970-78	17.5	10.1

*Excluding inventory profits

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In terms of return to stockholders equity, the recent record tends also to show somewhat better profitability for motor vehicles than for all manufacturing corporations.

Profits after-tax as percent of stockholders equity

	Motor vehicles	All manufacturing
1975	6.3	11.6
1976	17.0	13.9
1977	18.6	14.2
1978	16.9	15.0
1979 - I	21.8	12.2
II	18.7	15.6

Profits in the motor vehicle industry will tend to be depressed in the years immediately ahead, reflecting the large capital outlays occasioned by the downsizing of cars and by reduced rates of economic activity. Farther ahead, the industry should return to more normal rates of profitability.

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CHRYSLER CORPORATION

G. GREENWALD
EXECUTIVE VICE PRESIDENT
FINANCE

November 26, 1979

The Honorable William Proxmire
U. S. Senate
Washington, D.C. 20510

Dear Senator Proxmire:

This is in response to certain parts of the letter dated November 21, 1979 that you sent to Secretary Miller. We were asked this morning by the U. S. Treasury people to send the information on these parts of the letter directly to you, with a copy to them, rather than to send it directly to Treasury.

1. Chrysler does not develop weekly figures on operating losses. We will be closing the books on October later this week. However, we can say that the fourth quarter operating results are essentially on track with the projections included in the October 17, 1979 submission to the Government. October was slightly better than forecast. The months of November and December are expected to be slightly worse than forecast. The actual results for the quarter will be dependent upon the number of vehicles shipped to our dealer network, which is dependent upon sales at the retail level. At the present time, Chrysler's retail sales are being impacted by the news media reports on the congressional hearings, and the overall automotive industry is being affected by the general economic situation, talk of potential fuel problems, and the Iranian problem.

   We still believe that the financing needs are about the same as included in the October 17, 1979 submission to the Government.

2. Enclosed is a sampling of reports on Chrysler Corporation prepared over the last 15 years by various analysts and investment banking firms.

3. Enclosed are copies of the parts of the Chrysler Corporation 10-K Reports of the last 10 years that cover the Chrysler Thrift-Stock Ownership Program and the Chrysler Stock Option Plan, and descriptions of these employee benefit plans.

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4. Regarding the request for information on the composition of Chrysler's equity base, we are preparing this information and will deliver it to you as soon as possible, hopefully by Tuesday, November 27th.

Please let us know if there is some additional information that you would like on these points or on any other.

Sincerely,

Greenwald

cc: Mr. Robert Carswell

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CHRYSLER CORPORATION

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G. GREENWALD
EXECUTIVE VICE PRESIDENT
FINANCE

November 27, 1979

The Honorable William Proxmire
U. S. Senate
Washington, D.C. 20510

Dear Senator Proxmire:

Attached is the information on the composition of Chrysler's equity base that I indicated in my November 26th letter that we would deliver to you today.

Please let us know if you have any questions on the data.

Sincerely,

G. Greenwald

Attachment

cc: Mr. Robert Carswell

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CHRYSLER CORPORATION COMMON STOCK SCHEDULE

AVERAGE LENGTH OF HOLDING BY SHAREHOLDER GROUP

Shareholder Group	Number of Holders	Number of Shares	Average Years Shares Held
Employees	27,056	15,332,017	5.0 *
Retirees	8,815	4,227,039	8.3 *
Brokers and Nominees	929	20,868,128	2.6
Other Shareholders	169,933	26,276,421	6.2
Total Shareholder Body	206,733	66,703,605	4.9 *

* Includes period of time share held by trustee under Chrysler Thrift Stock Ownership Program.

EMS
11-27-79

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United States Senate

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
WASHINGTON, D.C. 20510

October 29, 1979

The Honorable G. William Miller
Secretary
Department of the Treasury
Washington, D. C.

Dear Mr. Secretary:

The Chrysler Corporation has submitted to you a modified request for Federal loan guarantees, in the amount of $750 million, based on a revised version of its September 15 financial plan. We understand that Treasury officials have agreed to work quickly to evaluate the plan so that you can make "expeditious recommendations" regarding any Administration proposal to the Congress.

The Committee on Banking, Housing and Urban Affairs held hearings on the Chrysler Corporation's financial problems and the implications for public policy on October 10, 11 and 12. The purpose of these hearings was to obtain background information for use by the Committee in future deliberations on the Chrysler situation.

Testimony presented by witnesses at the hearings raised a number of important questions about the Chrysler plan and the assumption underlying it, as well as about some of the broader issues involved. Some similar questions are raised by Chrysler's own consultant, Booz Allen & Hamilton, Inc.

In view of your desire to respond swiftly to the Chrysler request, we thought it best to advise you of the concerns that may arise with respect to the Chrysler plan, as revised, and of the additional information that will have to be provided in order for the Committee to be able to reach a responsible decision on any proposed legislation to provide loan guarantees to the Chrysler Corporation. Information will be needed on the feasibility of the Chrysler plan, on the reliability of the assumptions underlying it, on the impact on the viability of the company if these assumptions do not materialize, on the implications for competition in the automobile industry, and on the potential effects on employment and on the economy in general of alternative scenarios of Chrysler's future situation. The following pages discuss the needs and concerns of the Committee in more detail.

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The "Modification of Loan Guarantee Request" submitted to you by the Chrysler Corporation on October 17 represents an improvement over the September 15 plan in terms of information provided, but it is still deficient in a number of respects. The plan projects a dramatic turnaround over the six-year period running through 1985 by a company which has shown a continuing deterioration in its financial and market position since the early 1950's -- a turnaround based on the injection of $750 million in Federal loan guarantees. Highlights of the plan include the following:

(a) economic assumptions of GNP growth averaging 3.5 percent a year, inflation in the 8 percent range, and ample supplies of fuel with no protracted shortages until at least the latter part of the plan period;

(b) an increase of about 20 percent in Chrysler's U. S. market share by 1985, from 10.3 to 12.3 percent, based on a 42 percent rise in unit sales and significant increases in penetration of almost all segments of the U. S. car and truck markets;

(c) variable margin improvements and fixed cost reductions totalling over $1 billion a year from 1978 levels;

(d) resultant net earnings of $996 million in 1985, as compared with an estimated loss of $1.073 billion in 1979, and improvement of the company's return on sales to about 4 percent starting in 1984;

(e) capital-related spending amounting to $13.6 billion over the six-year period, accompanied by a cumulative cash shortfall peaking at $2.1 billion in 1981, to be covered by $750 million in loans guaranteed by the Federal government and an additional $1.35 billion in new funding to be obtained from (unspecified) asset dispositions, financial institutions, constituent groups, and state and local governments; and

(f) maintenance of Chrysler as a full line automobile company, with plans for expansion into new segments of the car and truck industries and establishment of more distinct identities for the two marketing divisions (Chrysler/Plymouth and Dodge/Dodge Truck).

These points and questions concerning them will be discussed in the following section:

(a) Economic assumptions

The revised Chrysler plan is an improvement over the previous plan in that it spells out some of the economic assumptions for the 1980-1985 period on which the sales and earnings projections are based, although

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the only back-up data provided are the charts shown in exhibits I - IV. There is no discussion, however, of the potential effects on the plan should any of these assumptions not be realized. For instance, it is assumed that there will be an ample supply of fuel available with no protracted shortages, at least until the latter years of the plan. Presumably this assumption forms part of the basis for the forecast in the plan of a partial swing in consumer demand back to middle and large-sized cars by 1981. If new shortages do occur, or even if they are perceived as a continuing threat, then this trend may not develop. In that case, Chrysler's sales of these larger cars would probably fall short of projections, its cash shortfall would widen, its profits would fall, and thus its financing needs might well exceed the amounts provided in the plan. Similarly, if other assumptions, such as GNP growth averaging 3.5 percent a year or inflation in the range of 8 percent, do not materialize -- if the economy turns out to be in better or worse shape than predicted -- then the plan will be affected and Chrysler's financing needs may be greater or less than projected. Given the uncertainties involved in econometric forecasts, it is necessary to have available a range of alternative possibilities, from pessimistic to optimistic, so that the Committee will be able to gauge the effects on Chrysler's situation and its prospects for recovery if the assumptions outlined in the plan prove incorrect.

(b) Market share

According to witnesses who testified at the Committee's hearings, the projected increase in Chrysler's market share (in both the car and truck industries) is the most crucial element of the company's financial plan, and the success of that plan hinges on the realization of that increase. Indeed, the company acknowledges the importance of this element by pointing out in the plan document that every one point increase in car market share for Chrysler produces an increase of $190 million in profits.

The market share projections contained in the October 17 plan remain unchanged from those in the September 15 plan discussed in the hearings. They show a growth in Chrysler's share of the automobile market as a whole from 10.3 percent of units sold in 1979 to 12.3 percent in 1985, which comes out to about a 20 percent increase in market share over that six-year period. In the car industry specifically, a somewhat larger growth in market share is forecast: from 10.2 percent in 1979 to 12.4 percent in 1985, for a gain of 22 percent.

Using Chrysler's figures, this translates into a $418 million increase in profits by 1985. By the same token, however, it can be assumed that if Chrysler's car market share does not rise by the projected

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amount, if indeed it were to remain at the same level, then Chrysler's profits would be $418 million lower than projected for 1985. And if there were, say, a 2 point drop in market share over that time period, which would not be inconsistent with recent trends, then this would reduce the 1985 figure by $808 million, which would come close to wiping out the $996 million in total profits projected for that year.

In light of all this, it is important that the Committee be provided with full and detailed justification for the market share projections contained in the Chrysler plan. A closer examination of these figures, as shown in Exhibit VIII, suggests that they may be rather optimistic.

The gains forecast are particularly marked for the car industry, where Chrysler is projecting a 38 percent rise in unit sales over the six-year plan period, as compared with a 14 percent rise for the U. S. car industry as a whole. These gains are based on the assumption that Chrysler will increase its penetration of every segment of the U. S. car market except for basic large cars, where the decline will be partially offset by the introduction of a new luxury car. The increase in penetration is shown to be especially great in the compact and middle-sized segments, which together will comprise close to 50 percent of the car industry by 1985.

The tables in Exhibit VIII show a 15 percent gain in Chrysler's truck market share, but the volume increases here are greater -- a 54 percent rise in unit sales of Chrysler trucks, as compared with a 34 percent rise industrywide. In this category, the Chrysler figures show increased penetration in virtually every segment of the truck industry, except for standard-size pick-ups, where Chrysler's share is projected to drop just 25 percent while total industry volume is expected to drop by closer to 50 percent. The Chrysler figures include some significant penetration of the small bus and small van segments of the truck market, where Chrysler does not have any models now and does not expect to have any until the mid-1980's.

While the Committee was told that such market share gains would not be unprecedented, they are nonetheless ambitious, especially for a company which has seen a continuous decline in its market share over the past 10 years. The Chrysler plan document states that the market share forecasts are based on a detailed examination of the industry but that "due to the confidential nature of this material, the detailed analysis is not presented".

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Witnesses at the hearings testified that it was essential that the Committee have detailed information on the assumptions underlying Chrysler's market share forecast available for review. These witnesses also stated that Chrysler's assumptions would have to be evaluated in the context of similarly detailed information on General Motors' (GM) and Ford's future marketing and production plans, since any gain in Chrysler's market share will have to be won at the expense of its competitors, which in all segments of the car industry except for subcompacts are almost exclusively the two larger American companies. And, in light of the announcement subsequent to the hearing of the planned Renault investment in the American Motors Corporation (AMC), it would also be helpful to have further information regarding those companies' stated plans to develop and market by 1982 a front-wheel drive compact, since this car would compete directly with Chrysler's "K" car, from which it expects to win substantial gains in the compact segment of the car market. All of this information should be available before the Committee gives formal consideration to any proposed loan guarantee legislation, since the success of a plan involving $750 million in Federal guarantees would depend on the reliability of those Chrysler market share projections.

(c) Cost savings

Section IV of the Chrysler plan outlines actions which the company intends to take to reduce fixed costs and improve variable margins by a total of $1 billion a year over 1978 levels, as a means of returning the company to profitability. These actions are important, because Chrysler's per unit costs are acknowledged to be the highest in the domestic automobile industry. According to information supplied to the Committee, regulatory requirements account for only part of this additional per unit cost, with factors like production inefficiencies and greater debt burden making up the rest. The actions planned include designing and aggressively marketing new products, offering more expensive optional equipment, reducing personnel, and closing some facilities.

The Committee should be provided with an analysis of the feasibility of the fixed cost reduction and variable margin improvement programs described in the Chrysler plan, and of the likelihood of achieving the projected $1 billion a year in "profit improvements" under varying economic assumptions. The company should be required to develop contingency plans for realizing additional per unit cost savings in the event that some of the expected improvements do not materialize. In addition, the Committee should have before it an analysis of the effects

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of these designated actions on U. S. employment, and particularly on certain areas such as Detroit, since many of these measures are likely to involve reductions in direct or indirect (i. e. supplier) employment.

(d) Profits

Based on the elements of the plan described above, Chrysler is projecting that it will start making a profit again in 1981 and that its net earnings will be $996 million in 1985, as compared with the estimated loss of $1.073 billion in 1979. Moreover, the plan forecasts an improvement of the company's return on sales to about 4 percent starting in 1984 -- a condition which Chrysler has experienced in only four years out of the past 25, all of them during the growth periods of the 1960's.

Witnesses at the Committee's hearings noted that growth rates in the automobile market are slowing, not only in the U. S., but also in Europe and Japan, as those markets reach maturity. This means there is likely to be a substantial increase in competition in the coming years, not only from the other domestic automobile companies but also from foreign companies making greater efforts to penetrate the American market. This increased competition will not only make it potentially harder for Chrysler to raise its market share as projected but may also make it necessary for the company to shave profit margins more closely in order to meet unit sales projections.

These "bottom line" earnings figures are, of course, the key to the success or failure of the Chrysler plan, and thus it is important to know if they are realistic. In order to assess the validity of the profit projections contained in the Chrysler plan and underlying its request for Federal loan guarantees, the Committee will require detailed analyses of those profit projections, in light of anticipated growth rates and competitive trends in the domestic and international automobile markets. These analyses should factor in some of the potential range of differences in economic assumptions, market share projections, and fixed and variable cost reductions suggested above and trace the impact on the company's profit picture. In addition, witnesses at the hearings stated that the Committee should have information on how Chrysler's position would be affected by fluctuations in exchange rates, which directly affect sales of imports, and by the growth of operations in the U. S. by foreign companies, such as Volkswagen's assembly plant in Pennsylvania. Analyses such as these are needed to provide a basis for the Committee to decide whether it is reasonable, in this economic climate, to assume

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that Chrysler can attain a 4 percent return on sales in the next few years, and if not, then what effect this will have on Chrysler's financing needs and on the viability of its recovery plan.

(e) Financing needs

The financial projections contained in the Chrysler plan are based on the market share, profit, and fixed and variable cost reduction figures discussed above. According to Section V of the plan document, funding needs will peak at $2.1 billion in 1982, reflecting expenditures required to replace medium and full size car lines with smaller front-wheel drive models, with costs partially offset by profits from the 1981 "K" car and from the anticipated economic recovery.

In the financial plan submitted on September 15, the company said that it could raise at least $900 million of the $2.1 billion needed from asset sales and other sources, and possibly $700 million more on top of that, but not the remaining $500 million. Accordingly, Chrysler requested $1.2 billion in loan guarantees from the Federal government -- $500 million initially, plus $700 million more to be available on a contingency basis. This plan was rejected as being outside of the $500-750 million loan guarantee range indicated to be acceptable to the Administration.

The October 17 request comes in right at the stated maximum --$750 million in loan guarantees -- but it is not clear whether this change involves additional financing sources or simply moving numbers around. The revised plan now contemplates raising $850 million rather than $450 million from "asset dispositions, financial institutions, state and local governments, and other" and $500 million rather than $450 million from "constituents and employee participation," for a total of $1.35 billion rather than $900 million, but it does not give any details as to how the additional $450 million will be obtained. In fact, the plan document specifically states that "the potential for funding is presented here in summary form in order not to disclose the details" because this might impair negotiations presently underway.

It is unfortunate that Chrysler is not more specific about its other funding sources at this point, given that it is pressing for swift action by the Administration in endorsing the Federal loan guarantee side of the financial plan. Certainly the Committee will have to have detailed information on the different funding sources and the amounts involved in order to reach a decision on the soundness of any

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loan guarantee legislation based on the Chrysler plan. Even if specific commitments cannot yet be obtained, the company should at least indicate with some specificity where it expects to get the funding needed: how much from financial institutions, from asset sales, from state and local governments, from the labor union, from dealers and suppliers.

In this regard, the Committee is particularly interested in knowing what effect the tentative labor agreement reached by Chrysler and the United Automobile Workers will have on the company's funding needs and overall financial projections. From news accounts, it appears that the agreement, if ratified by the union membership, would save the company approximately $203 million in lower payroll costs over the next two years, compared with provisions of other contracts recently agreed to in the industry. While this is an encouraging sign of labor-management cooperation, the Committee needs detailed information about the actual costs of the contract and its effective contribution to the company's financial plan in order to thoroughly evaluate union efforts to assist the company.

A number of analysts of the Chrysler situation, including witnesses at the Committee's hearings, have expressed doubts that the $2.1 billion figure is an adequate reflection of Chrysler's financial needs, and some have indicated that the actual figure could be twice that amount. According to recent press reports, this is also the view of Chrysler's own consultant, Booz Allen & Hamilton, Inc., which appears to believe that the needs may reach $2.8 billion by 1982. The company's approach to this issue, as stated in the plan, is that "the management of Chrysler is dedicated to finding ways to contain its peak cash requirements to a maximum of $2.1 billion."

The question then raised is what amount of Federal aid is needed to ensure Chrysler's long-term viability in the automobile market. A better way to ask the question might be what amount of guarantees under what conditions in the context of an overall financing plan would constitute an acceptable risk to the Federal government, in that the plan as a whole with the inclusion of a loan guarantee offers a reasonable chance of success in restoring Chrysler to financial health. And what amount beyond that would be an unacceptable risk because the chances for success would be remote in any case? Chrysler itself indicates in the plan that further borrowings beyond the $2.1 billion projected "would impose harsh financial burdens upon the Corporation". This is obviously true, given the high cost of borrowing in today's credit markets and the fact that Chrysler's debt-equity ratio is already by far the highest in the automobile industry. The financial strain imposed by further credit assistance to meet larger needs would be considerable, even if the assistance were made available at preferential Treasury rates, and prospects for the company's long-term viability could be less favorable.

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A reasonable standard for determining what level of financial aid constitutes an acceptable risk for the Federal government would be the amount of outside financing available under different assumptions of need. The extent to which private financial institutions and other outside parties are willing to bear the major share of the risk in any financing arrangement should be a measure of confidence in the recovery plan and thus of the acceptability of the risk to the Federal government. The Federal portion should be the catalyst, not the lion's share. If the outside parties involved are not willing to bear most of the risk, with a priority assigned to the Federal guarantees, then that should raise questions about the viability of the plan under certain circumstances.

A logical reference for setting a standard for outside financing would be the arrangements worked out under the most recent major Federal guarantee program, the New York City Loan Guarantee Act. Under the Act, the amount of Federal loan guarantees authorized is $1.65 billion, which is equal to 37 percent of the total $4.5 billion long-term financing needs projected in the plan supporting the loan guarantee authorization. The rest comes from commitments by financial institutions and pension funds, and from public sales of bonds. In the actual financing agreement, only $750 million of those Federal guarantees, or 17 percent of the total package, are committed to be provided, with the rest held available on a stand-by basis in case other parts of the package fall short.

It would be logical to argue that any financial arrangements made for Chrysler must at least reflect the level of non-Federal commitments found in the New York City package. First, we are dealing here with a business enterprise that has assets and inventory to back up some of its borrowings, which is not true in the case of a city. Second, the parties involved in the Chrysler financial arrangements have, if anything, an even more direct interest in maintaining the company's viability. These are banks with loans outstanding (not full faith and credit bonds), suppliers whose livelihood comes in whole or in part from Chrysler, State and local governments that derive substantial tax revenues directly and indirectly from Chrysler, and workers whose jobs depend on the company. If these parties are not willing to go any further, if the banks pull back -- as indicated in some press accounts-- then this raises large questions about the viability of any recovery plan, with or without large amounts of Federal guarantees.

In light of these considerations, it is necessary for the Committee to have specific information regarding the standards and methods that Treasury is using and plans to use to determine the degree of risk involved and the appropriate level of Federal and non-Federal participation

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in Chrysler's financial rescue plan. Do you perceive any outside limits, in terms of the total amount of funding required, beyond which no amount of Federal participation would be acceptable, because the prospects for success and for repayment of the Federal obligations would be remote?

Witnesses at the hearings urged the Committee to pay attention to the experience of the British government in its efforts to rescue the British Leyland automobile company. The plan developed five years ago envisioned that the rescue would cost about a billion pounds. At this point, practically all of the billion has been used up, British Leyland's share of the domestic market has fallen from 40 percent to 20 percent, and the company is now holding its hand out to the government for another 200 pounds. This experience points up the need for a careful assessment of Chrysler's financial needs and its prospects for increasing market share and profitability, under the most pessimistic conditions as well as the most optimistic, so that both the Administration and the Congress can consider whether and to what extent loan guarantees constitute a wise step and a reasonable risk.

(f) Full-line strategy

All of the elements of the Chrysler plan are hinged on one basic assumption, which is that Chrysler must remain a full-line manufacturer of automotive products. In fact, it is evident from the plan document that Chrysler intends not only to remain a full-line company but indeed to expand its market coverage into other segments of the car and truck industries, by means of a $13.6 billion capital investment program supported by $750 million in Federal guarantees. The plan is designed not simply to strengthen Chrysler's penetration of segments of the market in which it is already active but also to establish Chrysler as a market presence in new segments, some of them currently controlled by the company's domestic competitors, such as large luxury cars.

The theory behind this strategy, as stated in the plan, is that Chrysler's market coverage will expand in each succeeding year, and therefore the company will appeal to a larger percentage of the marketplace each year. But it does not necessarily follow that Chrysler will sell more cars just because it offers more models in more segments of the industry, especially not in those new segments where competing products are already well-established. Nor is it clear that the profits earned through this expanded market coverage will be sufficient to offset the additional costs of development and marketing.

Witnesses at the Committee's hearings, notably the Federal Trade Commission, questioned this Chrysler strategy. While conceding that the company probably could not thrive as a single-line manufacturer of subcompacts, because of the low profit margins involved, the FTC witnesses

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nonetheless expressed skepticism about the expansion strategy and, in particular, about Chrysler's plans to re-enter the luxury car market. Specifically, Chrysler plans to spend close to $250 million -- or a third of the amount of loan guarantees requested -- to develop a new luxury Chrysler Imperial by 1981 and a successor front-wheel drive model by 1985. Although the profit margins on these cars would be high, the projected unit sales are rather small -- 25-30,000 per year. And given GM's traditional domination of this market, plus competition from imports, it is debatable whether even that level of sales will be attainable, and indeed whether Chrysler can reflect the necessary "image" to succeed in the luxury car market in the next few years.

While the Chrysler plan states that strategic alternatives to deal with the company's financial difficulties were considered by management, it does not appear that enough thought was given to a limited-line (as distinct from single-line) strategy. A limited-line strategy would concentrate Chrysler's offerings in market segments where it may have the strongest potential to compete successfully, while at the same time cutting down on capital investment and other costs. Indeed, it does not appear that Chrysler even considered the possibility of remaining a full-line company at current levels and focusing its efforts on increasing penetration in all of the market segments in which it presently competes, which presumably would also involve somewhat lower costs and funding needs. And whereas there would obviously be no objection per se to a private company's planning an ambitious program of product development and market expansion, one can question whether it is appropriate for a company facing a loss of $1 billion and threatening financial collapse to be presenting such a program and asking for Federal loan guarantees to help finance it.

The Chrysler plan states that management has considered four strategic alternatives to deal with Chrysler's current financial difficulties. A reading of these alternatives suggest that they are not exhaustive, nor are the reasons for accepting or rejecting them thoroughly examined in the plan document. The alternatives considered to date are given as follows:

(1) remain a full-line manufacturer of automotive products.

(2) become a manufacturer of restricted automotive offerings, which is defined as "small cars only, or family size cars only, with trucks in both cases".

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(3) pursue business combinations (merger).

(4) undergo bankruptcy or reorganization under chapter 11 proceedings.

The Chrysler plan draws a stark contrast between the first and second alternatives, full-line vs. restricted line. The first will permit the company to retain its existing customers; induce small car buyers to "upline" to more profitable larger cars; and protect its asset base, work force, lenders, suppliers, dealers and various other "constituents". The second means cutting down to one car product-line only, with severe implications for sales, profits, and the dealer-body. As is indicated above, there would appear to be some limited-line alternatives lying between these two extremes which might offer certain advantages for the company. However, there is little evidence that any of these have been or are being explored, although the plan does allude to further studies of the question of strategic alternatives.

It is essential that the Committee be provided with a detailed independent analysis of the strategic alternatives available to Chrysler. Such an analysis should describe a range of full-line and limited-line strategies, and the potential impact of each on the company's sales, profits, and financing needs. In addition, the company should be required to provide a more thorough justification of the expanded-line strategy outlined in the plan. For every new model planned, and especially for every new segment of the market to be entered, Chrysler should supply detailed information about the reasons for developing that product, the market outlook and state of competition in that segment (including similar models produced or planned by other automobile manufacturers), and the capital costs involved relative to the anticipated earnings under different competitive assumptions.

The Committee will also need to have a much more detailed analysis of alternatives (3) and (4) and their relative merits. As regards the third alternative, mergers, it may well be the case, as stated in the plan, that a full merger is not possible at the present time with Chrysler's current financial problems. However, the Committee should have information about efforts Chrysler has made in the past to pursue merger possibilities, at times when its problems were evident but far less acute: what opportunities might have been available, and how diligently were they pursued? Could similar opportunities be available in the future, and under what circumstances? Also, the plan does not

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broach the possibility of mergers involving part rather than all of Chrysler's operations. What is the potential for mergers or other combinations of some of Chrysler's more lucrative operations, for the purpose of strengthening the company's capital base and providing new financial resources?

Then there is the fourth strategy, reorganization or bankruptcy under chapter 11 proceedings. This is simply rejected out of hand. Here again, the range of possibilities is not addressed, especially not the possibility of a substantial reorganization outside of formal chapter 11 proceedings, which would be far less likely to have the disruptive effects attributed to the bankruptcy alternatives.

Witnesses at the Committee's hearings stated that reorganization outside of chapter 11 proceedings is not only possible but preferable, and that lawyers generally make an effort to keep the problem company out of the courts. There is no evidence that Chrysler has attempted any such reorganization to bolster its financial condition, even though a reorganization of some magnitude is likely to be necessary whether or not it receives Federal loan guarantees. The Committee understands that Chrysler might restore viability by following the fairly standard "turnaround" strategy of selling off its more lucrative assets and using the proceeds to revitalize the rest of the company's operations. We assume this was what Board Chairman Iacocca meant when he told the Associated Press in August that Chrysler could make it on its own without Federal aid, that it could "muddle through". While the company has accomplished some restructuring through foreign and domestic asset dispositions, the Committee should receive more detailed information regarding the possibilities for a more fundamental reorganization of the company outside of bankruptcy proceedings, without Federal aid, and also a description of the contingency plans which the company has doubtless developed for use in the event that Federal loan guarantees are not forthcoming.

The Committee received varying views from witnesses concerning the potential outcome of a Chrysler bankruptcy under chapter 11 proceedings. Projected scenarios ranged from managed reorganization with new sources of financing to chaos and total shutdown. The only agreement was that no one can really know what would happen to Chrysler under chapter 11, especially with a new law having just come into effect, since there are no real precedents. It would be helpful for the Committee to have available a detailed review of the procedures involved in the new Bankruptcy Act and how they would probably be applied if invoked in the Chrysler case.

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In addition to this more thorough examination of the Chrysler plan, the Committee will need to have further information and analysis with regard to some of the broader issues raised by the Chrysler situation, including the implications for competition in the automobile industry, the potential impact on employment and on the economy, the possible alternatives to direct Federal credit assistance, and the concerns arising from recent developments in monetary policy.

Competition

Witnesses at the Committee's hearings, notably those from the FTC, expressed concern about the effects on competition of a potential Chrysler collapse, in view of the high degree of concentration already existing in the domestic automobile industry. They suggested that Chrysler's historical role as a leader in marketing and technological innovation, while unable alone to make the industry fully competitive, has at least posed a challenge to the leading two companies and thereby contributed to better industry performance. At the same time, however, they pointed to the steady decline in Chrysler's market share throughout the 1970's and questioned whether the company plays the same competitive role in today's automobile market and whether it can do so in the future.

Looking at the issue from a different angle, however, the FTC witnesses expressed concern about the implications for competition of providing Federal loan guarantees to Chrysler. The plan submitted by the Chrysler Corporation makes it evident that the company is not requesting Federal aid just to regain the status quo ante. Instead, as indicated above, the $750 million in Federal loan guarantees is the cornerstone of an ambitious plan to expand Chrysler's product lines and compete across a broader spectrum of the market. To the extent that this expansion plan succeeds, with government backing, it will cut into the market share of Chrysler's competitors, whose ability to compete may be considered to be somewhat reduced through the competitive advantage afforded to Chrysler by the Federal loan guarantees, in addition to any other preferences that might be forthcoming from Federal agencies.

It is well known that the Ford Motor Company is in some difficulty and has not been making a profit on its domestic operations. If Chrysler succeeds in realizing the market share gains projected in its plan, with the help of Federal guarantees, what effect is this likely to have on Ford's financial viability? What is the likelihood that Ford will request similar Federal aid if its market share erodes, and what would be Treasury's position on providing loan guarantees to Ford, under those circumstances? And what would be the effect on competition if two of the three large companies in the automobile industry were operating under government assistance?

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Effects on employment and on the economy

The major argument made in favor of Federal assistance to the Chrysler Corporation concerns the potential impact on employment and on the economy in general of a Chrysler collapse.

Two studies of this question have been used as the basis for justifying Federal aid to Chrysler; indeed, they are the only ones which have been given any currency. One of the studies is an econometric forecast of the macroeconomic effects done by Data Resources, Inc. for the Congressional Budget Office; the other is a preliminary staff study of the regional effects done by the Transportation Systems Center of the Department of Transportation (DOT). Both studies employ a "worst case" scenario which assumes a total shutdown of Chrysler's operations, and both project significant employment and economic effects, although not necessarily of a permanent nature, especially for certain parts of the country such as the Detroit area.

It should be noted that witnesses representing both studies testified before the Committee and that in each case it was stated that the worst case scenario is not realistic, that the likelihood of a complete shutdown of Chrysler's operations is quite remote, and that the most probable outcome of the Chrysler situation lies somewhere in between the two extremes of complete shutdown or complete maintenance of existing jobs and facilities. The figures of 600,000 jobs lost and billions of dollars in cost to the economy are considered to be exaggerated, as are the implications that there will be no costs and all those jobs will be saved if the Federal government will only step in with loan guarantees.

We understand from the testimony at the hearings that the Treasury requested the Department of Transportation to consider other, more realistic scenarios, and not just the worst case shutdown scenario, which is of course the easiest to analyze. It is essential that the Committee have before it alternative scenarios of the effects of the Chrysler situation on employment and on the economy under different conditions and assumptions, to aid in its deliberations on proposed Chrysler legislation. These scenarios should examine the effects of a Chrysler reorganization, with or without Federal aid, now or at some future date, in or out of bankruptcy proceedings.

The Committee would also be interested in knowing Treasury's own assessment of the short-term and long-term effects of a total Chrysler

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shutdown and whether it differs in any way from the findings of the two studies mentioned above. What proportion of Chrysler workers laid-off are likely to be able to find jobs with other automobile companies or other manufacturing companies which can use their skills? What proportion are likely to be able to find other unrelated jobs, perhaps with some retraining or relocation assistance? What proportion, if any, are likely to be permanently unemployed? As regards suppliers and dealers, how many are likely to go under; how many should be able to convert to other sources of work and other franchises, and what degree of permanent unemployment, if any, is likely to result in these areas? What would happen to Chrysler's share of the market; how much would be picked up by Ford and GM, and how much would go to imports? And what would be the impact of all this on the economy as a whole?

Witnesses at the Committee's hearings agreed that there will be some economic effects whatever the outcome of the legislative process and the financial plan. One of the DOT witnesses stated that at least 50 percent of the jobs in Detroit are likely to be eliminated under any realistic scenario. More plants will be closed, and more workers laid off, as part of any realistic revitalization effort. Thus, the Committee will need to have, in conjunction with these alternative scenarios, certain specific information on Chrysler's condition, including the following:

--an inventory of the Chrysler Corporation's plants, indicating for each the number of employees (broken down by occupational classification and into those presently on the job and those temporarily laid off), and the likelihood of that plant's being kept open and those jobs' being retained (in whole or in part) under alternative scenarios.

--a description of Chrysler's plan for future operations including new plants to be built or substantially modernized, number of jobs involved, and where these plants will be located (in which area of the country, or else outside of the country in the case of the Mexican four-cylinder engine plant) and what other operations and jobs, if any, are likely to be displaced by these new plants.

Alternatives to Federal credit assistance

At some point, be it here or further down the line, the Administration and the Congress may have to consider the possibility that the Chrysler Corporation may not be viable on a long-term basis and that some of the economic effects may have to occur anyway, barring a commit-

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ment of massive and continuing Federal assistance to keep the company alive at any cost. Therefore, it would be advisable for the Committee to have before it some alternatives to direct Federal financial aid to Chrysler that might address the difficult economic and employment problems posed by the Chrysler situation.

There are already a number of Federal programs in existence to provide assistance to communities burdened with high unemployment and economic decline. These include manpower training and relocation programs, trade adjustment assistance programs, and some economic development assistance programs which are presently undergoing a large expansion. Although there is no assurance that any one or combination of these programs can solve the problems of Detroit or other affected areas, any more than there are assurances that loan guarantees to Chrysler will solve these problems, it would nonetheless be useful for the Administration to provide the Committee with an analysis of the comprehensive measures that could be undertaken, using existing programs, to offset the economic effects of a Chrysler collapse in both the short- and long-term. The Administration should have some contingency plans, as well as the company.

Recent developments in monetary policy

The argument will be made that Federal financial aid to the Chrysler Corporation is still more imperative in view of the stringent monetary policy initiatives recently instituted by the Federal Reserve Board and the impact these are likely to have on Chrysler's access to credit and the costs thereof. The company can plead that the Federal government is hurting it still more, while offering estimates of the additional costs involved, and it can argue that this strengthens its case for Federal loan guarantees.

There are strong arguments on the other side as well. Many sectors of the economy are being and will continue to be strained by this severe tightening of credit, however necessary it may be. Given these extraordinary circumstances, it is essential that the Treasury provide the Committee with an estimate of the credit market impact of extending a loan guarantee to Chrysler, which may well be more substantial than it would be under normal market conditions. If Chrysler gets $750 million or more in Federal loan guarantees, plus access to additional funds from banks and other parties that might not otherwise be available, then how much of this credit is likely to be diverted from other borrowers, and what sectors of the economy are likely to be most affected? Will there be any incremental impact on interest rates? What would be the estimated effect on employment in these sectors?

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We appreciate your giving full consideration to the points raised in this letter and to the information needs that will be faced by the Committee on Banking, Housing and Urban Affairs in considering legislation to provide Federal loan guarantees to the Chrysler Corporation.

Best regards.

Sincerely,

William Proxmire
Chairman

Jake Garn
Ranking Minority Member

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THE SECRETARY OF THE TREASURY
WASHINGTON

November

Dear Bill:

In partial response to the letter of October 29, 1979, from you and Senator Garn regarding Chrysler Corporation's request for Federal assistance, I am enclosing a copy of my testimony before the House Subcommittee on Economic Stabilization. The testimony addresses many of the issues raised in the letter; others will be addressed in an early separate submission. However, there are a few questions to which we will be unable to respond because they require information which can be furnished only by Chrysler or by other parties.

Included in the first category are:

1. A detailed analysis of Chrysler's funding sources and potential merger partners;

2. A detailed analysis of the impact of the recent wage settlement on Chrysler finances;

3. A detailed analysis of alternative line strategies, including the possibility of reorganizing outside of bankruptcy without Federal aid; and

4. A description of Chrysler's plans for closing existing plants and constructing new plants.

Included in the second category are:

1. A comparison of Chrysler Corporation's future marketing and production plans with those of Ford Motor Company and General Motors Corporation which would require those organizations to reveal their future plans;

2. An analysis of the impact of financial assistance to Chrysler on the competitive position of General Motors Corporation and Ford Motor Company, including the possibility that Ford Motor Company may request loan guarantees; and

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3. An analysis of the impact of exchange rate fluctuations on the competitive position of certain foreign competitors and their plans for operations in the United States.

We have requested Chrysler to supply the information requested in the first category of questions above. The Committee may wish to request the information required by the second category listed above from the other relevant parties.

Best wishes,

Sincerely,

Bill

G. William Miller

The Honorable
William Proxmire
Chairman, Committee on Banking,
Housing and Urban Affairs
United States Senate
Washington, D.C. 20510

Enclosure

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THE SECRETARY OF THE TREASURY
WASHINGTON

November 13, 1979

Dear Bill:

In response to the letter of October 29, 1979, from you and Senator Garn regarding Chrysler Corporation, please find enclosed the following materials:

1. The Impact of a Chapter 11 Bankruptcy Proceeding on Chrysler Corporation prepared by Professor Frank Kennedy of the University of Michigan Law School who has acted as the Treasury Department's consultant on bankruptcy matters;

2. The Impact of the Chrysler Corporation Loan Guarantee Act of 1979 on the Credit Markets prepared by the Treasury Department's Office of the Assistant Secretary for Economic Policy, Office of Financial Analysis; and

3. Federal Programs to Provide Assistance to Communities Burdened with High Unemployment and Economic Decline prepared by the Treasury Department's Office of the Assistant Secretary (Domestic Finance), Office of State and Local Finance.

These materials, together with my testimony, provide the responses to all the questions asked in the letter except for those which must be provided by Chrysler Corporation or other parties as indicated in my letter of November 7, 1979.

Best wishes,

Sincerely,

Bill

G. William Miller

The Honorable
William Proxmire
Chairman, Committee on Banking
Housing and Urban Affairs
United States Senate
Washington, D.C. 20510

Enclosures 3

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THE IMPACT OF A CHAPTER 11 BANKRUPTCY PROCEEDING ON CHRYSLER CORPORATION

Professor Frank Kennedy
Thomas M. Cooley Professor of Law
University of Michigan Law School
Executive Director of the Commission
on Bankruptcy
Consultant to the U.S. Department
of the Treasury

November 1979

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The Impact of a Chapter 11 Bankruptcy Proceedings on Chrysler Corporation

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I. SUMMARY

It is first necessary and appropriate to be mindful of the plight of Chrysler. Secretary Miller has summarized Chrysler's business and financial condition at pp. 4 and 5 of his statement of November 7, 1979, to the Subcommittee on Economic Stabilization of the House Committee on Banking, Finance and Urban Affairs. Chrysler's record of the last ten years shows fundamental weaknesses. Its operating profit and net income as a percentage of sales have consistently fallen below those of GM and Ford during the last decade, and its average net profit margin during those years is only 0.7 percent. It has experienced losses of more than $200 million in 1975 and 1978. It projects a cash flow deficit of over $2 billion during the years through 1983.

Chrysler began in 1977 to seek to counter its declining position by improving its plant and equipment, embarking on the development of more competitive projects, and disposing of foreign assets and making other adjustments to meet its cash needs. The burden of meeting regulatory requirements and the adverse impact on the automobile market of the gasoline shortage and the economic recession have had a more seriously adverse effect on Chrysler than on its competitors, especially during the last year. Creditors and suppliers have taken steps to restrict or withhold future credit to Chrysler. The prospect for the foreseeable future for Chrysler without some form of dramatic assistance from outside is indeed dismal,

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since there is no indication that any change of direction in Chrysler's financial condition will otherwise come about.

The filing of a petition by Chrysler Corporation under Chapter 11 of the new Bankruptcy Code would jeopardize the ability of the corporation to survive. The filing of an involuntary petition under the same chapter by creditors is also a possibility under the new Code, but the consequences would not be significantly different in an involuntary case from those in a voluntary case. The relief that the filing of the petition would bring to Chrysler would include the following:

- The petition would stay the collection of all debt and relieve Chrysler of the duty of payment of all debt until authorized by a plan confirmed by the court. This relief would extend to all debts, whether current or long term, owed to banks or suppliers or employees, whether secured or unsecured, and whether liquidated or disputed or evidenced by judgment.

- The filing of the petition would terminate the accrual of interest on unsecured debt.

- The filing of the petition would set in motion machinery designed to enable Chrysler to modify its debt and stock structure, including possible adjustments of the principal, maturities, interest rates, and other terms of its indebtedness that recognize the realities of its financial condition and ability to pay.

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- The petition would enable the debtor, or perhaps a disinterested trustee appointed by the court, to conduct the business of Chrysler under the auspices of the court in consultation with a creditors' committee.

- Chrysler would be able to use its property including bank accounts, subject to a right in secured creditors and banks with a right of setoff to "adequate protection" of their interests.

- The financial affairs and condition of Chrysler would be investigated by a trustee or examiner appointed by the court.

- Chrysler or its trustee could assume and perform advantageous contracts and reject burdensome contracts. Provisions in any executory contract purporting to enable the other party to terminate the contract on the filing of a petition under the bankruptcy law would be unenforceable.

- Chrysler or its trustee may be able to recover preferential payments made shortly before the filing of the petition if Chrysler was insolvent when the payments were made.

Adverse consequences likely to ensue on the filing of the Chapter 11 petition include the following:

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- Most petitions for reorganization are preludes to eventual liquidation, and even confirmation of a reorganization plan affords little assurance that the enterprise will survive long after the case is closed.

- The publicity accompanying the filing of the petition would brand Chrysler as a "bankrupt" and create enormous sales resistance for Chrysler products. Prospective purchasers of automobiles will be reluctant to invest substantial amounts in products that require maintenance, repairs, and modifications that depend on the ability and willingness of a bankrupt manufacturer through its dealers to perform warranty and other obligations.

- The filing of the petition is likely to create problems for consumers seeking the enforcement of warranty obligations respecting automobiles sold before the filing of the petition.

- The filing of the petition is likely to result in erosion of the dealer system of Chrysler and loss of the personnel and ability of the dealers that survive.

- There is a risk that Chrysler will lose its most capable management talent during the course of the Chapter 11 case, that the control of the business will be

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taken over by a disinterested trustee whose abilities are conjectural, and that in any event the management responsibilities will be divided with a creditors' committee and possibly the court of bankruptcy.

- The ability of Chrysler to collect its claims and enforce its rights will be impaired by the increasing resistance of its debtors and adversaries to pay and cooperate with Chrysler.

- The Chrysler estate will be saddled with costs of administration incident to the conduct of the Chapter 11 case, including compensation of attorneys, accountants, and other professional personnel required for the conduct of such a case.

- There are many unresolved questions raised by the new Bankruptcy Code, and administration and the resolution of controversies will be attended by delays and confusion and expense of substantial litigation.

Based on these factors, the conclusion must be that a Chapter 11 case for Chrysler is fraught with hazards to its future survival. At best Chrysler faces extreme difficulty in maintaining itself as a viable competitor in the manufacture of automobiles during a Chapter 11 proceeding. However, the probable result is the eventual termination of Chrysler enterprise or at best, a very substantial diminution in its scope.

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II. The Relief Available Under Chapter 11

A. Commencement of a Case

Chrysler Corporation and/or any affiliate may file a petition for relief under Chapter 11 of the Bankruptcy Reform Act. 11 U.S.C. § 301. It is no longer necessary for a petitioner for reorganization relief to allege or show insolvency or inability to pay debts as they mature.

An involuntary petition may be filed by three creditors holding noncontingent, unsecured claims of at least $5,000. An indenture trustee representing such a creditor may also be a petitioner. 11 U.S.C. § 303(b)(1). Unless the debtor does not contest the petition, petitioners must allege and prove a ground for seeking relief under 11 U.S.C. § 303(h). The most likely ground for an involuntary petition against Chrysler would be that the debtor is generally not paying its debts as they become due. What constitutes "generally no paying such debtor's debts as they become due" is a litigable issue, and there is no case law answering that question.

The likeliest venue for the filing of such a petition would be the Eastern District of Michigan -- i.e., Detroit. 28 U.S.C. § 1472. A petition might be filed elsewhere and thereafter transferred to Detroit, or conceivably it might be transferred from Detroit to another venue. 28 U.S.C. §1475. Bankruptcy Judge Harry Hackett or Bankrupty Judge George Brody would be the bankruptcy judge to whom the case would no doubt

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be referred. There is no United States trustee in this district. Under the Bankruptcy Reform Act, it is contemplated that bankruptcy judges should be relieved of administrative responsibilities to a considerable extent, but where there is no United States trustee, there is a considerable vacuum in respect to the question who has responsibility for supervising administration.

B. Stay of Debt Collection and Litigation

First, the filing of a petition stays litigation and other efforts to collect prepetition debts. There are, however, current liabilities as well as sizable long-term debts which Chrysler would not have to pay except under a plan providing for their payment in whole or part has been confirmed by the court of bankruptcy. Current liabilities were projected as of 1979 at $2,425 million, "other noncurrent" liabilities at $651 million, and long-term debt at $1,666 million, for an aggregate of $4,242 million. The filing of the petition would relieve the need for cash to pay any of the amounts reflected in these figures. The amounts would remain obligations on the balance sheet until paid or discharged pursuant to a confirmed plan. The balance sheet presented on p. 67 of Chrysler's Loan Guarantee Request of October 17, 1979 shows a net worth of $1,842 million. If that net worth is realistic, the obligations would ultimately have to be paid, along with but after the debt incurred during the operation under Chapter 11.

The stay imposed by the filing of the petition is governed

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by 11 U.S.C. §362. It would not operate against the three actions pending under the Clean Air Act or the action pending in the Southern District of Indiana under the Indiana State Implementation Plan, although it is conceivable but not probable that these actions could be nejoined. Any pecuniary liabilities imposed by judgments rendered in such proceedings could not be collected without permission of the bankruptcy court, probably pursuant to a provision in a confirmed plan. See 11 U.S.C. §362(b)(5).

Miscellaneous legal proceedings, some of which assert damage claims in large amounts (see 10K Report at 25), would no doubt be stayed. The Report recites the management's belief that this "ordinary routine litigation" will not result in ultimate liability "material in amount."

The stay would prevent any bank or other creditor from exercising a right of setoff after the filing of the petition. See 11 U.S.C. §362(a)(7). Chrysler or its trustee would not, however, be able to use the bank account subject to the right of setoff without the consent of the bank or a court order approving such use. See 11 U.S.C. §363(a) and (c)(2). Moreover, the court could not authorize such use without finding that the bank was adequately protected against loss resulting from such use. It is an interesting and difficult question how a bank having a right of setoff can be adequately protected against potential loss if the depositor is allowed to use its bank account.

Relief from the automatic stay may be obtained from the bankruptcy court under 11 U.S.C. §362(d)-(f) on a showing of cause.

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Cause is usually the lack of adequate protection of an interest in property of the party seeking relief; another typical ground is that the debtor does not have an equity in property that is protected by the stay and that the property is not necessary to an effective reorganization. The cited subsections contain provisions designed to require the court to act promptly on any request for relief from the automatic stay. Thus when the stay operates against an act against property of the estate, the bankruptcy court must act on the request within 30 days; otherwise the stay automatically terminates. 11 U.S.C. §362(e).

C. Potential Reduction in Debt

The expectation that a plan will be formulated under Chapter 11 that will reduce Chrysler's debt will presumably have some deisrable effect on Chrysler's financial outlook. As mentioned above, however, if the corporation has a net worth -- i.e., is not insolvent, there will be little or no likelihood of any reduction of debt by the confirmed plan. Every creditor and every stockholder is entitled to at least as much under any confirmed plan as he would receve on liquidation under 11 U.S.C. §1129(a)(7)(ii), and no majority vote of his class of holders can deprive him of that entitlement. The test applied, however, is liquidation value rather than going concern value, and application of the test may cause the equity to disappear. Even if this relatively easy test is met, the finally confirmed plan must also be accepted by the statutory majority of each class (two-thirds in amount and over one-half in number of each class of creditors, two-thirds in

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amount of each class of stockholders -- 11 U.S.C. §1126(c) and (d)), or be found to be fair and equitable as to the dissenting class (11 U.S.C. §1129(b)). If a class dissents, it is entitled to payment or protection as provided in 11 U.S.C. §1129(b)(2)(A). Each class of secured creditors is entitled to retain their lien until they have received payment in full or in an amount equal at least to the full value of their collateral if they are undersecured. Each class of unsecured creditors is entitled to receive property equal to the allowed amount of their claims unless stockholders and unsecured creditors with lower priority get nothing. Stockholders share only if all creditor classes consent or a valuation (at the going concern value) shows that there is a value in Chrysler's assets in excess of what is required to pay all creditors and all the expenses of administration. Preferred stockholders are entitled to their fixed liquidation preference or fixed redemption price (if any) before common stockholders get anything. Common stockholders may insist on a valuation before they are squeezed out, and their insistence may induce agreement by superior classes to allow them to share in order to avoid the expense and delay entailed by protracted litigation of valuation questions.

D. Termination of Postpetition Interest

A perceptible advantage of the filing of a petition under Title 11 of the United States Code is that the petition terminates the accrual of postpetition interest on unsecured debt except in the highly unlikely eventuality that the estate can pay

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such interest as well as all allowed debt and administrative expense (11 U.S.C. §726(a)(5). Interest on secured debt continues to accrue as long as the collateral is sufficient to cover the principal, administrative costs of preserving the collateral, collection charges, and the interest (11 U.S.C. §506(b)). The amount of interest expense shown for 1978 in the Consolidated Summary of Operations for Chrysler and its consolidated subsidiaries at p. 14 of the 10K Report was $128.0 million, although an accompanying note indicates that total interest charges on long-term debt for 1978 was $166.2 million. Neither entry indicates whether or how much security covered the debt on which the interest accrued. The benefit in the form of cancellation of postpetition interest on unsecured debt would operate for each year of the pendency of the Chapter 11 case.

It is to be noted here that filing of a petition does not interrupt the accrual of taxes or delay the duty of the debtors in possession or the trustee to make returns and pay postpetition taxes.

E. Use and Disposition of Property

The trustee or the debtor in possession has the right to use or dispose of property, including collateral securing debts, after the filing of the petition, if such use of disposition is in the ordinary course of business and the trustee or debtor is authorized to operate the business. 11 U.S.C. §363(c). The debtor's business is permitted to be continued under 11 U.S.C. §1108 in a Chapter 11 case, unless the court otherwise orders.

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The authorization to use or dispose of property is subject to the imortant qualification, however, that cash collateral, including "deposit accounts," cannot be used without court approval or consent of the other party who has an interest in such collateral. Although 11 U.S.C. §362(a)(7) stays a setoff, 11 U.S.C. §363(a) and (c)(2) undoubtedly mean that a debtor may not draw on its bank account if the bank has a right of setoff, since the right of setoff is treated as a security interest under 11 U.S.C. §506(a) -- i.e., unless the bank consents or the court approves. Accounts receivable and inventory can be used or disposed of in the ordinary course of business, but when inventory or accounts receivable are converted into "cash, negotiable instruments, ... deposit accounts, or other cash equivalents," the right to use or dispose without consent or court approval ceases. A use or disposition otherwise than in the ordinary course of business is permitted only after notice and hearing.

Under 11 U.S.C. §201(1) "notice and hearing" does not require a hearing if one is not requested timely by a party in interest. Accordingly, property may be used or disposed of otherwise than in the ordinary course of business without a court order if no party in interest requests a hearing after receiving notice of the proposed use or disposition. (This is usually startling information to lawyers accustomed to supposing that a court order must approve every sale of property of a debtor's estate otherwise than in the ordinary course of business.) When court approval of a use or idsposition of property is required under 11 U.S.C. §363,

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the other party with an interest in such property is entitled to "adequate protection." Adequate protection is defined or, more accurately, explained in 11 U.S.C. §361. The trustee or debtor may be required to make periodic payments or to provide an additional or alternate lien to cover diminution in collateral resulting from use or disposition. It appears that if adequate protection must be provided by the trustee or by Chrysler as the debtor in possession, it has ample unencumbered property that might be utilized as collateral to provide alternate protection.

F. Access to Needed Capital

Arguably the filing of a petition under Chapter 11 enhances ability to obtain access to capital, but the point is highly debatable. The Bankruptcy Reform Act in 11 U.S.C. §364 contains elaborated provisions enabling the trustees or the debtor in possession to obtain credit under various conditions. If credit is otherwise unobtainable, the court after notice and hearing may authorize the obtaining of credit by the giving of a senior lien on the debtor's property. An important limitation, however, is that the interest of the holder of the lien subordinated is entitled to adequate protection. Such protection might be present in the form of ample security or the provision of additional or alternate security. Chrysler's unencumbered assets appear to be ample for providing such protection, but Chrysler has the ability now, quite independently of the bankruptcy law, to borrow on such security. The court has no power or leverage

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under Title 11 of the United States Code to compel any lender to extend credit. Even if a bank or other potential lender has made a contract to make a loan, or extend other debt financial or financial accommodations to Chrysler, neither the trustee nor Chrysler as a debtor in possession could assume and enforce such a contract under 11 U.S.C. §365(c)(2). Sction 364 does enable the court to confer priority or parity for the lien of a postpetition lender vis-a-vis a prepetition lienor, and that advantage in gaining access to new money is not available outside the bankruptcy court. That advantage does not appear to be significant in the Chrysler situation because of the considerable amount of unencumbered property which could be used as collateral without invading the priority or security of existing prepetition lienors.

G. Ability to Assume Advantageous, and Reject Burdensome, Contracts

The ability of Chrysler, or its trustees if one is appointed pursuant to 11 U.S.C. §1101, to assume and enforce advantageous executory contracts and to reject burdensome contracts may be a significant benefit of filing a petition under Chapter 11. The ability to assume and enforce such a contract may be quite telling if the other party has a right to terminate the contract because of a default, including the failure to fulfill a covenant respecting the financial condition of Chrysler. Section 365 of Title 11 enables Chrysler or its trustee to assume, enforce, and perhaps even to assign an executory contract that might not be

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enforceable outside of bankruptcy. If the contract involves elements of confidentiality or unique characteristics of Chrysler or the extension of debt financing or financial accommodation to Chrysler, it may not be assumed or assigned by Chrysler's trustee under 11 U.S.C. §365(c). As long as Chrysler remains a debtor in possession under 11 U.S.C. §§1107 and 1108, however, it arguably may enforce an executory contract involving confidential or personal elements against an unwilling party. The court must ordinarily approve the assumption, and the other party may be heard on the question whether the assumption is prohibited or is fair.

A default entitling the other party to terminate may be cured if Chrysler provides adequate assurance that there will be future performance. The default may occur before or after the filing of the petition, but there are two reservations that should be made here:

1. It is not clear how long after a default has occurred that it may be cured. Arguably, a limit of 60 days after the filing of the petition for curing the default is presented by 11 U.S.C. §108(b)(2).

2. If the other party has already terminated the contract on account of the default before the filing of the petition, it is questionable whether the contract may be revived. Cf. Schokbeton Industries, Inc. v. Schokbeton Prod. Corp., 466 F.2d 171 (5th Cir. 1972).

Such advantageous contracts may be those with suppliers,

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dealers, lessors, lessees, etc. The other party may nonetheless break the contract, of course, and subject Chrysler or the trustee to the necessity of suing for damages. The Mitsubishi contract appears to be one that can be assumed and enforced notwithstanding a clause in it that authorizes termination in the event of bankruptcy. Filing a petition does not appear to make the Mitsubishi contract any more enforceable under Chapter 11 than it is before the filing. Since I do not find any express commitment in it to supply all the MMC products Chrysler wants or orders, the advantages of assuming the contract are unclear. If Mitsubishi has no justification under the contract for failing to ship all of the MMC products ordered or wanted by Chrysler, the bankruptcy court may enforce it against Mitsubishi notwithstanding the bankruptcy clause.

Dealers may likewise be compellable by the bankruptcy court to honor their executory contracts with Chrysler notwithstanding bankruptcy clauses and other provisions entitling them to terminate. There are surely practical problems attending enforcement of a dealer's contract against an unwilling dealer, and it is doubtful that any significant advantage can be found in the ability of Chrysler or its trustee to assume such a contract with an unwilling dealer.

The ability of Chrysler to reject burdensome contracts exists independently of the bankruptcy law with respect to most contracts. Chrysler would ordinarily be liable for damages attributable to the rejection -- whether the rejection occurs before or after the

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filing of the petition. A rejection of an executory contract entitles the other party to damages for the breach. There may be situations where rejection of an executory contract under 11 U.S.C. §365 gives rise to a damage liability even though no such liability would accrue if the rejection had occurred before the filing of the petition. In any event, the damages would present an unsecured claim that need not be paid except pursuant to a confirmed plan (or on liquidation if bankruptcy should ensue). The claim for damages would be treated as any other unsecured claim -- i.e., the creditor would be paid a pro rata dividend if such creditors are paid something but not in full.

Collective bargaining contracts are subject to rejection under 11 U.S.C. §365, and if Chrysler is saddled with an onerous contract of this kind, relief might be afforded the company or trustee by virtue of such rejection. It is doubtful that this option is of any significant value. The company or its trustee must maintain satisfactory labor relations and operate the business consistently with the National Labor Relations Act even though the debtor in possession or trustee constitutes a new entity.

Chrysler or its trustee may be able to reject onerous employment contracts, and its liability for the breach is subject to a limitation by 11 U.S.C. §502(b) -- i.e., to recovery of no more than one year's compensation. This limitation is an advantage obtainable without regard to non-bankruptcy law. It is not likely to be a significnt one, however.

A similar advantage is obtainable on rejection of a lease of real estate to Chrysler as a tenant.. The damages allowable

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are subject to a limitation under 11 U.S.C. §502(b) -- i.e., to recovery of no more than one year's rent or 15 percent of the rent for the remainder of the term up to three years.

Disadvantageous contracts with suppliers are subject to rejection. The likelihood is, however, that most contracts with suppliers are more favorable to Chrysler than contracts obtainable in lieu of the rejected contracts. This option does not promise to be of substantial value to Chrysler or its trustee.

H. Appointment of a Trustee or Examiner

As indicated above, a debtor in a Chapter 11 case will ordinarily continue the operation of its business unless the court, after a notice in hearing, finds cause to appoint a trustee. 11 U.S.C. §1104. Cause for the appointment of a trustee may be incompetence or gross mismanagement or that such an appointment is in the interest of creditors and stockholders. 11 U.S.C. §1104(a). If a trustee is appointed, the trustee must be a disinterested person. A disinterested person is defined in 11 U.S.C. §101(13). The trustee may retain as employees existing management personnel, in-house counsel, et al.

The SEC may seek the appointment of a trustee in a Chapter 11 case involving such a debtor as Chrysler because it feels strongly that a distinterested trustee should always be in the saddle when a company is publicly held. The SEC's effort to make the appointment of disinterested trustee mandatory in such a case did not succeed in Congress. The new legislation deliberately vests discretion in the bankruptcy court in respect to the appointment of a trustee, even in a case involving a public company. If

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the SEC should lose in its effort to persuade the court to appoint a trustee as a matter of discretion, it is not allowed to appeal the adverse ruling, though it presumably could join as an amicus if some party in an interest should appeal the court's refusal to appoint a trustee.

If appointed, a trustee investigates the affairs of the debtor under 11 U.S.C. §1106(a)(3) and is required to file a reorganization plan as soon as possible under §1106(a)(4). Other duties of the trustee are prescribed in 11 U.S.C. §1106.

If no trustee is appointed, an examiner may be appointed on request of a party in interest to investigate and file a report. Such an appointment appears to be mandatory on the filing of an appropriate request in the case of any debtor like Chrysler having unsecured debts in excess of $5 million other than for goods, services, and taxes.

While the court is not explicitly authorized by the statute to supervise the operation of the business, the trustee or the debtor in possession must file reports, and the trustee and his counsel must ultimately seek allowances of compensation and reimbursement of expenses from the court. 11 U.S.C. §§3310, 503(b)(2). As under prior law, the court is presumably vested with authority to approve the trustee's accounts before the case is closed. See 11 U.S.C. §§ 305(a) and 1106.

I. Avoidance of Prepetition Transfers

The trustee may avoid prepetition transfers that are preferential, fraudulent, unperfected, or otherwise vulnerable under

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11 U.S.C. §544, 545, 547, 548, 549 or 553. Thus, a security interest that is unperfected under the U.C.C. would be voidable under 11 U.S.C. §554(a), and an unperfected tax lien would be avoidable under 11 U.S.C. §545. The same section would permit the trustee or debtor in possession to avoid a statutory or common-law landlord's lien.

Any preferential transfer occurring within 90 days of the filing of the petition would be voidable under 11 U.S.C. §547 unless saved by subsection (c) of that section. If the preference is made to an insider, which would include an affiliate, the preference could be avoided if it occurred within one year before the filing of the petition, though in such a case the plaintiff must show that the preferred creditor had reasonable cause to believe that the debtor was insolvent at the time of the transfer. Although insolvency is presumed under 11 U.S.C. §547(f), the presumption extends only for the 90-day period immediately preceding the filing of the petition, and the presumption is rebuttable, not conclusive. According to H.R. Rep. No. 95-595, 95th Cong., 1st Sess. 375 (1977), the presumption is governed by Federal Rule of Evidence 301. The presumption thus requires the party against whom the presumption exists to come forward with some evidence to rebut the presumption, but the burden of proof remains on the party in whose favor the presumption exists. Insolvency is defined in 11 U.S.C. §101(26) as a "financial condition such that the sum of ... debts is greater than all of [the debtor's] property, at a fair valuation." Moreover, any

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payment of a debt incurred in the ordinary course of business, made within 45 days after the debt was incurred, and made in the ordinary course of business of the debtor and the transferee according to ordinary business terms would not be voidable under 11 U.S.C. §547(c)(2). If a creditor has received a preference, it must disgorge the preference before its claim can be allowed for any amount under 11 U.S.C. §502(d); that is to say, setoff of the voidable preference against the remaining obligation owing the preferred creditor is not permitted.

While the right to setoff is generally preserved under 11 U.S.C. §553, there are limitations on the availability of setoff. Thus, if a debtor of Chrysler should acquire a claim against Chrysler after the commencement of the case or within 90 days before the filing of the petition and Chrysler was insolvent, the setoff would not be permitted. Likewise if a bank or other creditor of Chrysler should accept a deposit during the 90-day period before the filing of the petition while Chrysler was insolvent and the purpose of the deposit was to obtain the right of setoff, the setoff would be disallowed. A new limitation on setoff is spelled out in §553(b). This provision strikes at any prepetition setoff effected within 90 days before the date of the filing of the petition. A two-point test is applied. If there is a deficiency at the beginning of the 90-day period before the filing of the petition, or a deficiency arises for the first time during that 90-day period, and the other party thereafter but before the petition is filed exercises the right of setoff at a time when the deficiency has been reduced, the trustee may

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avoid the setoff to the extent that the deficiency has been reduced during the 90-day period. For the purposes of applying this limitation on the right of setoff, the trustee or debtor need not show that the debtor was insolvent at any time during the 90-day period. Theh purpose of this unusual provision is to discourage any bank from exercising the right of setoff on the eve of the filing of a petition under the Bankruptcy Reform Act.

J. The Right to Formulate and File a Plan

The debtor has the exclusive right to formulate and file a plan for 120 days after the entry of the order for relief. 11 U.S.C. §1121. If the debtor files a plan within the 120 days, the debtor is allowed 60 more days within which to obtain acceptances, free of any competition from a plan formed by any other party. These periods of 120 days and 60 days may be extended or reduced for cause. 11 U.S.C. §1121(d).

If a trustee is appointed, however, the trustee or any other party in interest may propose a plan. An ulterior purpose of a party in interest for seeking the appointment of a trustee may be that the party is really interested in an opportunity to propose a plan.

The mandatory and permissive provisions of a plan are prescribed by 11 U.S.C. §1123. The plan may deal with secured debt, unsecured debt, and stock interests; it may propose sale of some or all of the assets or merger or consolidation; it may modify the charter of the debtor. 11 U.S.C. §1123(a)(5).

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A plan must treat all members of the same class in the same way without discrimination, unless a particular claimant or stockholder agrees to less favorable treatment. 11 U.S.C. §1112(a)(4). Small claims may nevertheless be paid off and treated separately and specially. This is a recognition of the administrative convenience of getting rid of small claims and the potential objections their holders raise. 11 U.S.C. §1122(b).

K. Treatment of Claims

A claim that is scheduled in a Chapter 11 case is deemed filed unless it is scheduled as disputed, contingent, or unliquidated. 11 U.S.C. §1111.

A secured claim is ordinarily allowable only to the extent of the value of the collateral, and to the extent a secured creditor is not adequately secured by his collateral, the deficiency claim is unsecured. 11 U.S.C. §506(a). Postpetition interest on a secured claim constitutes a valid secured claim if the collateral is sufficient to cover it. 11 U.S.C. §506(b).

If a reorganization case under Chapter 11 is converted into a liquidation case under Chapter 7 and if the estate is insufficient to defray the administrative expenses of both the liquidation and the reorganization proceedings, priority is accorded to the administrative expenses of the liquidation. 11 U.S.C. §726(b). While this point may not be as clear under the legislation as it should be, the legislative intent, as I understand it, is that, at least if the court's order according priority to the

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new moneylender is sufficiently explicit, a new moneylender's priority granted pursuant to 11 U.S.C. §364(c) or (d) is superior to the administrative expense claims incurred in the liquidation case. In no event should the administrative expenses incurred in the liquidation prevail as against any lienholder's right, whether created by the court pursuant to 11 U.S.C. §364 or a lienholder's right arising pursuant to a prepetition security interest that has been duly perfected and not avoided as preferential or otherwise.

Certain unsecured claims are entitled to priority under the bankruptcy law. These include, in addition to administrative expense claims, claims for wages, including vacation, severance, and sick leave pay, earned within 90 days before the filing of a petition and claims for contributions to employee benefit plans attributable to services rendered within 180 days before the filing of the petition, such employee claims being subject to an aggregate $2,000 maximum for each employee; claims arising from consumer deposits for undelivered goods and services to the extent of $900 per consumer; and tax claims that have not become stale (e.g., are no more than three years old). U.S.C. §507(a). In a Chapter 11 reorganization, administrative expense claims must be paid in full in cash and without delay; other priority claims must be paid in full but may be deferred. 11 U.S.C. §1129(a)(9).

L. Possibility of Liquidation

Although liquidation was frequently regarded as an inappropriate objective or effect of a Chapter XI plan under the

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Bankruptcy Act, liquidation is a permissible objective in new Chapter 11. 11 U.S.C. §§1123(a)(5)(D) and 1129(a)(11). As earlier noted, a sale of some or all of the assets or a merger of consolidation as an objective of a Chapter 11 plan is explicitly recognized in 11 U.S.C. §1123(a)(5)(C) and (D).

A conversion of a Chapter 11 case to a liquidation case may be precipitated under 11 U.S.C. §1111. The debtor has considerable leeway to choose liquidation as an alternate to reorganization under 11 US.C. §1112(a). Any party in interest other than the debtor may also move for conversion under 11 U.C.S. §1111(b). Conversion may be appropriate when the business is incurring continuing losses, the debtor is unable to effectuate a plan or is dilatory in trying to develop one, confirmation is denied, or there is a default on a confirmed plan.

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III. The Cost of Chapter 11

A. The Lessons of Experience in Reorganizations

Most cases filed under Chapters X and XI of the Bankruptcy Act have been converted into liquidations, and most reorganized debtors do not survive long even after confirmation. Reorganized railroads have a better record than other kinds of debtors, but there are special considerations applicable to railroads that do not operate with respect to debtors like Chrysler. Railroads have a tremendous capital investment that cannot readily be converted to other uses. Moreover, railroads have been viewed as public utilities whose continuity has been regarded as of a matter of high national priority. To that end enormous governmental outlays have been made to support the reorganization and life-sustaining effort. Experience warrants a presumption that a company that files a petition for reorganization will not make it.

There has been more English experience with efforts to reorganize automobile manufacturing enterprises. Rolls Royce, an automobile with a prestigous name, and British Leyland have both been deeply involved in reorganization efforts, and extensive governmental assistance has been necessary to keep them going. British Leyland is still in deep financial trouble. In this country I am mindful of the disappearance of Studebaker and Reo as manufacturers of automobiles and trucks.

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A pertinent question here is whether Chapter 11 of the new Bankruptcy Code does not sufficiently improve the reorganization process that a better track record will be achieved by debtors in the future. Without denigrating the virtues of the new law, I do not think the new law affords a substantially greater likelihood that Chrysler can survive a reorganization under Chapter 11.

B. Deterioration in Consumer Acceptance of Chrysler Products

The most dramatic effect of the filing of a petition under Chapter 11 by Chrysler will be the adverse impact on the acceptance of Chrysler's products by consumers. We start with a company whose products have been losing ground in the competition for consumer acceptance in this country. The company has recognized the necessity for improving the product and public acceptance in numerous ways that need not be recounted here. Filing of a petition under Chapter 11 by the company will, in my opinion, more than counteract and undermine these efforts. I am inclined to think the petition would inflict disastrous and permanent damage to the ability of Chrysler to survive except in perhaps a quite narrow and specialized market.

An automobile is for the typical purchaser the most expensive thing he buys in a lifetime except a house. Experience, both his own and that he hears and reads about, tells him that an automobile is likely to need repairs and replacements and changes and that it is important in purchasing an automobile to have access to an authorized service facility and confidence in the willingness and ability of the facility

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to give competent, prompt, and courteous service in correcting the defects and difficulties to be encountered in use. Moreover, many if not most purchasers take into consideration the probable resale value of the automobile after a period of use.

When a petition under Chapter 11 is filed, the headlines of newspapers and magazines, telecasts, and the radio broadcasts will trumpet the news that Chrysler is "bankrupt." No matter that Congress carefully avoided using the word "bankrupt" anywhere in the Bankruptcy Reform Act. The word "bankrupt" carries a stigma. To sell a car manufactured by a "bankrupt" company presents a tough challenge to the distributors and their sales people. It is not easy to sell a Chrysler product now, but the difficulty will be greatly magnified once the company is officially in the custody of the bankruptcy court.

The warranty that a car manufacturer makes is important to the prospective purchaser. The distributor's undertaking is not regarded as of any consequence except insofar as it is backed up by the manufacturer. In this regard, we should distinguish between warranties on sales that occur prior to, and after, the filing of a bankruptcy petition. Presumably Chrysler in Chapter 11 will continue to provide a warranty for its prodicts at least as attractively worded as before the filing and as attractive in form and content as any competitor's. (I am assuming that the trustee, if there is one, the creditors' committee, and the court will not dare to require Chrysler to qualify its warranties in the interest of cutting down potential liabilities, since that

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step would be suicidal.) Nonetheless the fact that the warranty is made by a "bankrupt" company will be the most salient fact about it.

The apparent stability, strength, and reputation of the distributor will be enormously influential in the evaluation of the warranty and the general acceptability of Chrysler products. The effect of the filing of the petition on Chrysler's ability to keep a strong distribution system will be addressed directly later in this statement, but it is important to note here that evidence and reports of changes and closing of dealerships will reinforce the unfavorable impressions created by the news of the filing of the Chapter 11. Reports of departures of experienced service personnel from dealers' establishments will be deleterious on the public's acceptance of Chrysler products. The developments referred to in this paragraph may occur whether or not a Chapter 11 petition is filed, but the pendency of the petition adds an element of hopelessness that makes these developments more dire.

This perception will be exacerbated by the likelihood that the company will be unable to honor warranties on prepetition sales. Although discussed later, it must be emphasized that any default on prepetition warranties will affect subsequent sales. If Chrysler and its distributors cut back on what is done to remedy defects and difficulties that appear with respect to automobiles sold by Chrysler before the filing of the petition, the resulting consumer dissatisfaction will redound to the

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disadvantage of the marketability of new automobiles after the filing of the petition. Consumers will connect the treatment of old customers with the treatment to be expected for the new. The public will not dissociate Chrysler's and its distributors' handling of warranty complaints respecting old (i.e., prepetition) cars and postpetition cars.

Reorganizations of service companies, manufacturers of items less expensive and less vulnerable to discovery of latent defects, and distributors do not not present such hazards as does the reorganization of a company manufacturing automobiles. Both domestic and foreign competitors will be able, willing, and ready to take over all the demand that Chrysler might have satisfied if its products had not become so tainted and unacceptable. Assuming that these competitors will not advertise against the risks of buying the products of a "bankrupt" company their salesmen can be expected to will exploit the "folly" of buying from Chrysler to the fullest. They are undoubtedly doing that now, but they will be able to do more effectively after the "bankruptcy" is officially a matter of record. A person who buys a Chrysler automobile will be needled by his friends, neighbors, and relatives. He will have to explain himself and when things go wrong with the product, as they do with all automobiles, it will be a reflex reaction to say, "What can you expect from a bankrupt company?" I don't know how any prediction or computation can be made of the impact of the filing of the petition on Chrysler's share of the market, but in my opinion

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it will be dramatic and become aggravated, no matter how well administered the reorganization itself is.

C. Inability to Honor Prepetition Warranties

A warranty is an obligation made or assumed by the manufacturer or seller at the time the product is sold to the purchaser. Chrysler's dealers probably make no warranties except as conduits of Chrysler. If an automobile sold before the filing of a petition is brought into a dealer's shop after the filing of a petition for service or a change order or correction of a defect, any outlay by Chrysler by way of honoring an obligation issued prior to the filing would be contrary to the spirit of the Bankruptcy Act. During the pendency of a Chapter 11 case, Chrysler cannot generally pay any unsecured obligations incurred before the filing of the petition except pursuant to the provisions of a plan confirmed by the court, and generally unsecured creditors can be paid only if all secured and priority creditors are first paid in full. Moreover, all the unsecured creditors generally must be treated alike. I do not think the outlay can be considered an administrative expense entitled to priority and prompt payment under the present legislation.

D. Risk of Loss of Capable Management and Ability to Operate Efficiently

Chapter 11 provides a means of getting incompetent or dishonest management of a Chapter 11 debtor displaced. The disinterested trustee operates the debtor's business under 11 U.S.C. §1108, investigates the affairs of the debtor,

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formulates a plan, and performs other functions under 11 U.S.C. §1106. He may retain in employment such of the debtor's existing personnel as he thinks necessary and appropriate. While it is thus possible that the appointment of a trustee will not result in the loss of able and trustworthy management, it is difficult to keep in top spots capable managerial talent in subordination to a disinterested trustee. A presumption may legitimately be entertained that the management that has brought an enterprise to the point where a petition under Chapter 11 is appropriate ought to be replaced. The presumption is easily rebutted, however, when the management is relatively new and came in after the conditions leading to financial stringency occurred before the new management's arrival. To displace management, whether automatically or otherwise, runs the risk that knowledgeable, capable people will be replaced by a person who knows nothing about the business, never learns what is required to operate it successfully, and expedites its descent into hopeless insolvency. All experienced reorganizers acknowledge that when a disinterested trustee is appointed, his ability and qualities are absolutely critical to the success of the reorganization. The appointment of Robert Loeffler as trustee in the Equity Funding proceeding was a highly fortunate choice. The retention of management in the KDI case was equally fortunate.

Whether or not a trustee is appointed, a creditors' committee is appointed pursuant to 11 U.S.C. §1102. Its duties

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include consultation with the trustee or debtor in possession regarding all aspects of administration, including the operation of the business. Active involvement by the creditors' committee in all aspects of the administration is essential to the proper functioning of the reorganization process. An active creditors' committee may, however, constitute an impediment to efficient and successful management. The necessity of clarifying many decisions with the creditors' committee and settling differences of opinion slows down the process, creates frustrations, and generally discourages innovative and energetic action by management.

There is additionally in a Chapter 11 case the question of the role of the court in supervising the administration. In pilot districts the United States trustee is expected to involve himself in supervising administration, including the operation of the debtor's business, at least to some extent. The legislative history of the Bankruptcy Reform Act indicates that the bankruptcy judge is to be relieved under the new legislation of involvement in administrative responsibility so that he can be free of any taint of identification with the officers and personnel who are acting in the case and can thus function more objectively as the impartial tribunal to resolve disputes that arise in the case. In the absence of a United States trustee, however, there is a vacuum in respect to the supervision of administration. If the trustee or the management of the debtor in possession is competent and

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energetic and the creditors' committee functions smoothly in its consultations with the trustee or debtor in possession, a hands-off attitude on the part of the bankruptcy judge will undoubtedly be a blessing. Countrariwise, there may be troublesome, time-consuming, conflicts between an activist bankruptcy judge, the trustee or debtor's management, and the creditors' committee. The Bankruptcy Reform Act leaves regrettable lacunae in respect to the exercise of supervisory responsibility for administration in non-pilot districts.

E. Loss of Dealers

The establishment and maintenance of a strong and vigorous distributor organization are surely indispensable to effective marketing of automobiles in the American economy. It seems more likely than not that the dealers in Chrysler products are not as prosperous and effective as their counterparts distributing General Motors and Ford products. It is predictable that the filing of a petition under Chapter 11 will accelerate dealer closings. It does not appear likely that the trustee or debtor in possession could prevent dealers from going out of business. There may be contractual provisions in the dealers' franchises preventing their taking on rivals' products, but it is questionable how far contractual stipulations and policing of performance under dealers' franchises can force reluctant dealers or discourage a dealers to devote energy and money to extend selling and service functions. Even those dealers who stay with Chrysler will

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have difficulty keeping capable and dedicated personnel for selling and service functions. Finally, it will be difficult to recruit new dealers to distribute and provide service for automobiles of a "bankrupt" manufacturer. As the number of dealers drops and the number of personnel of the surviving dealers decreases, the volume of sales will surely decrease by even larger proportions.

The deterioration of the dealer system for Chrysler products must already be under way, but the process will be accelerated if a Chapter 11 petition is filed.

F. Risk of Loss of Ability to Compete Successfully in the Marketplace

The matters discussed under the preceding four headings all point toward the likelihood that Chrysler as a Chapter 11 debtor will suffer a diminution in its ability to compete successfully in the marketplace. The factors described above will suggest to management the need for extraordinary advertising and promotional efforts to gain customers. It is questionable, however, whether the creditors' committee, the trustee, if one is appointed, and the court will look with favor on substantial expenditures to counteract the adverse effects of the combination of circumstances producing a deterioration in consumer acceptance of Chrysler products. One is mindful here of the attitude of the banks taken in the W. T. Grant case when successful sales of facilities and inventory produced a substantial amount of cash. The banks, rather than allowing this

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money to be continued at risk in order to rehabilitate W. T. Grant, decided to pull the plug and to find new and more promising investments for their funds. The trustee or the debtor in possession will have a tough time justifying the borrowing of funds for the purpose of taking innovative actions or launching vigorous promotional campaigns to counteract the effects of a deteriorating market position.

G. Increased Difficulties in Collecting Claims

It is notorious that once a debtor files a petition under the bankruptcy laws, its obligors become less interested in maintaining a record of prompt payments. Those debtors who do not expect to make any future purchases from Chrysler will have no incentive to maintain good credit relations with Chrysler. If disputes arise, litigation is likely to be necessary to force collection. The new Bankruptcy Reform Act does improve the situation with respect to recoveries on accounts receivable and other causes of action belonging to the estate. Whereas formerly it was necessary for the trustee or debtor in possession to sue obligors in a non-bankruptcy court of convenience to the defendant, the new bankruptcy law allows the trustee to sue in the bankruptcy court where the case is pending. 28 U.S.C. §1478(a).

H. Burden of Costs of Administration

While the filing of a Chapter 11 petition terminates the accrual of interest on unsecured debts and postpones the collection of debt, it is to be remembered that the costs of

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administration are a burden that the estate must carry. Costs of reorganization are not obtainable. The Administrative Office of the United States Courts has never undertaken to collect information of this kind. Each reorganization is unique, and there are risks in comparing costs of reorganizations even if they should prove to be attainable. Costs of administration of bankruptcy liquidations typically run between 25 and 30 percent of the proceeds collected. While it is not to be assumed that this figure is meaningful, for debtor's estates as large as that of Chrysler, costs are nonetheless quite substantial, as is apparent from an examination of reports of administrative allowances in cases like those of Equity Funding and W. T. Grant.

One change of interest here that is effected by the Bankruptcy Reform Act of 1978 is the elimination of the Referees and Salary Expense Fund, which imposed a substantial charge on estates administered under Chapter 11. This fund, which provided for a compensation of referees (i.e., bankruptcy judges) and the expenses of their offices is no longer collected, because bankruptcy judges and their offices are regarded as a responsibility of the General Treasury. A filing fee of $200 is charged for a Chapter 11 case by 28 U.S.C. §1930(a), and subsection (b) of the same section authorizes the Judicial Conference of the United States to prescribe additional fees. It is still contemplated, however, that a trustee's compensation and expenses, the compensation and expenses of the trustee's counsel

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and other professional personnel employed by him, including accountants, appraisers, auctioneers, et al., shall be paid out of the estate in amounts allowed by the court. See 11 U.S.C §§326, 327, 328, 330, and 503(b). As indicated above, a trustee has responsibility for investigating "the acts, conduct, assets, liabilities, and financial condition of the debtor, the operation of the debtor's business and the desirability of the continuance of such business, and any other matter relevant to the case in the formulation of a plan." It is apparent that this investigation might involve a considerable expenditure of funds. Even if a trustee is not appointed, 11 U.S.C. §1104(b) requires the appointment of an examiner to conduct such investigation of the debtor as is appropriate, "including an investigation of any allegations of fraud, dishonesty, incompetence, mismanagement, or irregularity in the management of the affairs of the debtor or by current or by former management of the debtor" if "the debtor's fixed, liquidated, unsecured debts, other than debts for goods, services, or taxes, or owing to an insider, exceed $5,000,000" and it is clear that Chrysler easily qualifies for such an appointment. The Bankruptcy Code does not authorize an examiner to appoint attorneys, accountants, and other professional personnel for the purposes of making an investigation, but it would not be surprising if an implication of such authority is found by the courts.

A creditors' committee is authorized to employ "one or more attorneys, accountants, or other agents, to represent or

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perform services for such committee." 11 U.S.C. §1103(a). The actual, necessary expenses of the committee are allowable administrative expenses under 11 U.S.C. §503(b), and an indenture trustee rendering services "in making a substantial contribution in the case under Chapter 11 "is entitled to an allowance for administrative expense" under 11 U.S.C. §503(b)(5).

As a result of the load of administrative expense imposed on a debtor by a reorganization case, a company which appears to be solvent at the inception of the case often turns out not to be able to pay creditors 100 cents on the dollar because the administrative expense gobbles up the surplus and more. Not infrequently the administration of a reorganization case has gone so badly that there is not enough left to pay for the administrative expenses of both the ensuing liquidation and the superseded reorganization case. In that eventuality, it was the rule under the Bankruptcy Act, as it is under the new Bankruptcy Code, that priority is given the administrative expense for the liquidation over the administrative expense incurred in the reorganization case. Otherwise, of course, there would be a risk that the liquidation would not be carried out, because liquidators do not serve gratuitously.

I. Likelihood of Increased Litigation with Attendant Costs and Delays

Reorganization cases are commenced in a court and are conducted in a setting that is conducive to much litigation. When the stakes are high, it is likely that any doubtful point will

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be brought before the court for resolution. Litigation is expensive and engenders delay. While the objective of the draftsmen of the Bankruptcy Reform Act was to relieve bankruptcy judges of administrative responsibilities, parties in interest, seeking certainty and exploring the values of resisting attempts to collect claims and rejecting offers of compromise, will force the trustee or debtor in possession to litigate. Because the Bankruptcy Reform Act is new, frequently employes language difficult to understand, and leaves sizable gaps to be filled in by Rules of Bankruptcy Procedure that have not yet been promulgated, many issues will be litigated to establish the law to be applied.

One issue likely to be litigated early in the application of the Bankruptcy Reform Act is the constitutionality of the comprehensive grant of jurisdiction to the bankruptcy court, House Report 95-595, 95th Cong., 1st Sess. (1977), which accompanied H.R. 8200, the House bill, that eventually became in considerably revised form the Bankruptcy Reform Act, took the position that a grant of comprehensive jurisdiction of the bankruptcy court required that the bankruptcy court be an Article III court. The Senate resisted this position, and the court eventually created by the Bankruptcy Reform Act of 1978 is to be presided over by bankruptcy judges appointed by the President for 14-year terms. The House Report cited above literally constitutes an invitation to challenge the constitutionality of the grant of jurisdiction to the transitional court of

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bankruptcy that serves until April 1, 1984, and the new bankruptcy court that takes its place. Bankruptcy judges appointed by district judges for six-year terms, subject to clearance by specially appointed committees at the time of the expiration of their original terms of appointment, are continued in office until April 1, 1984. The validity of this Congressional extension of judicial appointments may be itself a ground for challenge.

Another fruitful ground of litigation is likely to be presented by the inconsistency between the Rules of Bankruptcy Procedure, originally promulgated for application in cases under the Bankruptcy Act, with the Bankruptcy Reform Act. It will be at least two years before rules appropriately adapted to the new legislation can be drafted and approved by the standing Committee on Rules of Practice and Procedure of the Judicial Conference and the United States Supreme Court, and finally acquiesced in by Congress in order to become effective under 28 U.S.C. §2075 as amended. The Advisory Committee on Bankruptcy Rules appointed by the Chief Justice has promulgated some interim rules as suggested transitional guides, but their applicability depends on their being promulgated by a duly constitued authority. It is not at all clear who is the duly constituted authority to promulgate rules pending the compliance by the Supreme Court with the procedure prescribed in 28 U.S.C. §2075 for rules of practice and procedure under the new Bankruptcy Reform Act. In this situation there can be all kinds of litigation about the meaning and validity of interim rules

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and the applicability of the old Rules of Practice and Procedure to cases under the new statues.

Other issues likely to generate litigation in the bankruptcy court include the following: whether a trustee should be appointed; whether relief from the automatic stay should be granted, including the issue whether a secured creditor subject to the stay is adequately protected; whether collateral may be used, including the issue whether a secured creditor is adequately protected if use is authorized; whether new money is obtainable without the provision of security or a priority.

IV. Conclusion

If the above catalogs of benefits and costs of a Chapter 11 case are realistic, the conclusion must be that a Chapter 11 case for Chrysler is fraught with hazards to its future survival. The picture may be unduly pessimistic. It is premised on a view that at best Chrysler faces extreme difficulty in maintaining itself as a viable competitor in the manufacture of automobiles. It suggests a conclusion that if a Chapter 7 petition is filed, the probable result is the eventual termination of Chrysler enterprise or at best, a very substantial diminution in its scope.

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Impact of the Chrysler Corporation Loan Guarantee Act of 1979 on the Credit Markets

Forecasts for the economy generally point to some easing in activity in the period ahead, followed by a moderate rate of recovery. While credit markets have recently been marked by strong demands and sharply higher interest rates, demands for credit are likely to moderate later on. In fact, business demands for credit appear to have been edging lower since early October. In an economic climate of easing credit demands, loan guarantees to Chrysler, coupled with matching amounts to be raised separately, are unlikely to strain credit markets. In this regard, the maximum $3 billion of additional funds to be raised over a period of four years as envisioned in the Administration's proposal is less than 1 percent of total funds raised in any one year by the entire nonfinancial sector.

The recent shift in policy by the Federal Reserve adds dimension to this issue. A Federal Reserve policy designed to limit growth of credit to a particular target could imply that guarantees to one firm would mean that some other potential user of credit is pushed lower in the queue. Whether this actually would happen during a period of relatively slack demand for credit is difficult to tell at this time. However, even if some potential users of credit were to be displaced in such a circumstance, an overriding public interest may well require that credit

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be so directed that particular localities (such as the Detroit area) or particular industries do not suffer severe dislocation.

The Treasury Staff Analysis of the Economic Impact of a Shutdown of the Chrysler Corporation, dated November 7, 1979, has been forwarded to the Committee on Banking, Housing and Urban Affairs. As the Analysis indicates, while we do not not believe those impacts would be as dire as some of the other assessments would indicate, they would be substantial and would widen the Federal budget deficit by perhaps $1 billion in 1980 and $1-3/4 billion in 1981. Financing such wider deficits would of course be a drain on credit markets.

November 13, 1979
Office of the Assistant Secretary
for Economic Policy
Office of Financial Analysis

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FEDERAL PROGRAMS TO PROVIDE ASSISTANCE TO COMMUNITIES BURDENED WITH HIGH UNEMPLOYMENT AND ECONOMIC DECLINE

In the Treasury Department's assessment of the desirability of issuing loan guarantees to Chrysler, consideration has been given to the types of programs that, under current law, might be called upon to provide assistance to State and local governments, individuals, and private firms that would be seriously affected by a collapse of the Corporation.

In the course of this consideration, the staff of the Office of State and Local Finance prepared an inventory of existing Federal programs under which such assistance might be provided. On balance, it does not appear that these programs would provide significant short-term relief from the effect of a Chrysler bankruptcy.

The program inventory is no more than a list of possible options. While some programs involve funds that automatically become available, in most cases agency discretion is involved, and the responsible agency would have to make any determinations required before funds could be made available. Clearly, redirecting funds in this way would limit the availability of funds in other regions and programs. Moreover, the governmental jurisdictions, individuals, and private firms to which funds might be made available under the programs would have to meet applicable statutory requirements for eligibility for assistance. Furthermore, many of these programs involve demonstration or grant funds that may be of little consequence for this purpose.

Time has not permitted discussion of the materials in the inventory with responsible officials of the agencies involved. Thus, it has not been possible to take account of constraints that would prevent allocation of funds to areas adversely affected by a Chrysler closing.

Attachment A is a summary inventory of the programs that might be available to help affected areas adjust to the collapse of Chrysler. The inventory is compiled from information in the Appendix to the Budget of the United States Government for Fiscal Year 1980. This inventory is subject to changes incorporated in the final budget adopted for Fiscal Year 1980. Specific budgetary information can be provided only after the final budget is adopted.

Office of the Assistant Secretary
(Domestic Finance)
Office of State and Local Finance
U.S. Department of the Treasury
November 13, 1979

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ATTACHMENT A

INVENTORY OF FEDERAL PROGRAMS THAT MIGHT POTENTIALLY BE AVAILABLE TO AID STATE AND LOCAL GOVERNMENTS, INDIVIDUALS, AND PRIVATE FIRMS AFFECTED BY A COLLAPSE OF CHRYSLER

A. Department of Agriculture

Child Nutrition Programs. Affected State and local governments might be selected for the demonstration and nutrition-aid projects.

B. Department of Commerce

1. Economic Development Assistance Programs. EDA provides public works, business development loans and guarantees, technical assistance, planning assistance, economic adjustment assistance, grants to States, economic research, and $150 million in new money for energy impact assistance.

2. Loan Guarantees. These guarantees enable firms to continue operations and to modernize plants in areas of high unemployment or threatened major layoffs.

3. Office of Minority Business Enterprise.

C. Department of Housing and Urban Development

1. Subsidized Housing Programs. Subsidized housing programs provide funds that could help individuals but would provide little assistance to local governments.

2. Operating Subsidies. Although public housing operating subsidies are normally allocated by formula, it might be possible to provide a little extra aid in those areas particularly affected.

3. Federal Housing Administration Insuring Authorities. Although these authorities do not provide funds, they do provide a capacity that might be used to help prevent serious problems in affected local housing markets.

4. Federal National Mortgage Association/Government National Mortgage Association. The special-assistance functions could be used to purchase mortgages in a discretionary fashion to bail out federally insured housing mortgages that are troubled as a result of any Chrysler failure. This would be a new use.

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5. Community Development Grants (CDBG). Except for the Secretary's discretionary funds, the CDBG program is all formula aid that could not be diverted directly. Local governments in Chrysler-affected areas, however, might be authorized to divert existing CDBG funds to help eliminate budget deficits.

6. Urban Development Action Grants. Although this program is discretionary and aimed at purposes congruent with those under consideration here, the time lags involved between Federal commitment and Federal outlays are long, and most available funds have probably already been committed.

7. Rehabilitation Loans. These are relatively quick-spending discretionary funds.

D. Department of Justice

Office of Justice Assistance, Research, and Statistics.

E. Department of Labor

1. Employment and Training Assistance. These include CETA, Special Programs for Youth, and other national programs.

2. Community Service Employment for Older Americans.

3. Temporary Employment Assistance.

4. Federal Unemployment Benefits and Allowances.

5. Trade Adjustment Assistance. This would be a primary vehicle for assisting Chrysler workers. Thirty employee groups in the firm have already requested Federal certification. After certification, unemployment benefits can be supplemented, tax-free, at up to 70 percent of the worker's previous income for a year, and for another six months if the former employee is in a training program, in school, or over 60 years of age.

F. Department of Energy

Energy Conservation. A priority in the State and local grant program might be established for Chrysler-impacted areas.

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G. Department of Education

1. Elementary and Secondary Education. The independent school districts in Chrysler-impacted areas would lose tax receipts and might be helped directly with discretionary funds.

2. Education for the Handicapped. Innovation and development funds might be directed to impacted areas.

3. Student Assistance. Direct loans, State student incentive grants, and supplementary-opportunity grants might be directed by recipient States to Chrysler-impacted local areas.

4. Special Projects and Training. A number of activities are available to be funded by the Secretary of Education in this category.

H. Department of Health and Social Services

1. Health Services. Some discretionary funds are available in the community health area.

2. Assistance Payments. Often the outlays under these programs will be delayed in their impact in Chrysler-impacted areas.

3. Administration for Youth. Discretionary funds are available under this program that might be focused on Chrysler-impacted areas.

4. Work Incentives Program.

I. Department of Transportation

1. Airport and Airways Development Trust Fund.

2. Federal Highway Trust Funds. Urban discretionary grants, bridge funds, safety funds, and research and training funds might be directed to Chrysler-impacted areas.

J. Community Services Administration

Community economic development and demonstration funds might be focused on Chrysler-impacted areas.

K. National Consumer Cooperative Bank

Self-help development and technical assistance funds provided under enabling legislation for this Bank might be focused on impacted areas.

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L. Small Business Administration

1. Procurement Assistance.

2. Management Assistance.

3. Finance and Investment Assistance. A wide variety of activities involving direct loans, loan guarantees, and participation loans may be provided through these authorities.

[Whereupon, at 6:20 p.m., the meeting was adjourned.]

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CHRYSLER CORPORATION LOAN GUARANTEE ACT OF 1979

THURSDAY, NOVEMBER 15, 1979

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, D.C.

The committee met at 10:07 a.m., in room 5302, Dirksen Senate Office Building, Senator William Proxmire (chairman of the committee) presiding.

Present: Senators Proxmire, Cranston, Stevenson, Riegle, Sarbanes, Tsongas, Garn, Tower, Heinz, Armstrong, Kassebaum, and Lugar.

STATEMENT OF CHAIRMAN PROXMIRE

THE CHAIRMAN. The committee will come to order.

This morning we are honored to hear from the distinguished chairman of the Chrysler Corp., a man who has very extensive experience in the automobile business. And we look forward to your testimony, Mr. Iacocca. I have a few remarks that I would like to offer first.

You have been the most dynamic, eloquent foe of Government intervention in the automobile industry. You are now asking the Government to risk $1.5 billion. If it fails, the taxpayer takes a painful bath. If it succeeds, you will be a famous success and be made very, very wealthy. Aren't you saying that the Government should get off your back on safety and health and a cleaner environment, but should take the loss out of the profit and loss system when it comes to risks? Don't you see a transparent contradiction here?

Now, your company has hired the top Democratic lobbying firm in Washington, Mr. Boggs and his firm. They have indicated that they would put a dozen lobbyist to work 1 to 1 on Senators to win the Government guarantee.

You have also hired the top Republican lobbying firm, Mr. Timmons. They will undoubtedly also go 1 to 1.

Every Senator will be lobbied and lobbied hard. You have an army of Chrysler dealers in every congressional district in the country. You have tens of thousands of employees throughout the country and in the six States. You have a labor organization, the UAW, which has no peer in the respect and support that it commands in the House and the Senate. That union is going absolutely all out on this issue. You have hundreds of banks which have made loans to Chrysler and have an interest in supporting you. You have

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thousands of suppliers and others who are working with Congress very hard on this.

You make an appeal at the beginning of the Presidential campaign. You have the administration and the candidates for this 1980 election, and even some who look ahead to 1984 and 1988. That is quite a few who will be thinking hard about electoral votes in these six States in which your employees constitute a major factor.

So you have a whale of a lot going for you. And what is going against you? Not much. No lobbyists, no labor unions, no bankers, no aspiring Presidential candidates. But you do have something going against you. You have your own excellent record of fighting Government intrusion and the support of that philosophy by such leading papers as The New York Times, which opposes this, The Wall Street Journal, which opposes it, The Washington Post, and Business Week and others.

And they oppose it on the philosophy that business should be prepared to win or lose in the marketplace, not on the Government's back, and it is profit and loss, including loss, in the system, the system that has served you and this country well in the past.

We don't want to, and I'm sure you don't want to, weaken it. So, Mr. Iacocca, I hope in the course of your remarks you would tell us how this proposal—how this success would make Chrysler a hero and you a hero, a very rich hero, how it can be free of Government intrusion.

STATEMENT OF SENATOR GARN

Senator GARN. I made an opening statement yesterday and will not repeat that, but only very briefly state that I am philosophically opposed to Government aiding any business. But recognizing the difficulties Chrysler is in, I still will remain uncommitted, listening to all of the testimony and the hearings during the first few days, before making a final decision.

I think it is only fair to Mr. Iacocca to know—and I have told him privately—that I do start from that base of very grave concerns about setting a precedent.

And I noticed this morning in The Wall Street Journal that Ford privately forecasts a loss of more than $1 billion in 1979. So the automobile industry in general is very troubled, and we may be setting the precedent and the next one might be Ford.

Thank you, Mr. Chairman.

STATEMENT OF SENATOR RIEGLE

Senator RIEGLE. Thank you, Mr. Chairman.

Mr. Iacocca, let me welcome you to the committee and say that I and others here look forward to your testimony today.

Let me also say that I very much appreciate the efforts that you and others at Chrysler—who constitute the new management team—are making to get this company squared away and back on a profitable footing. I think it is clear, based on the hearing record that has been developed in this committee in previous hearings that if Chrysler succeeds—if your efforts there are successful—it is going to strengthen the United States. It will help us in important ways, not just in avoiding enormously adverse domestic economic

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circumstances, but also help us in this new world market that has developed to compete more effectively with the Japanese and the Germans.

I for one am disturbed very much by the fact that our trade deficit in motor vehicles last year was $7 billion, the second largest item after oil imports. The market share for foreign manufacturers has been rising, partly because of oil shocks, energy price rises, and so forth.

The company, under your direction, is moving very aggressively to build many small, 4-cylinder, front-wheel-drive vehicles as a way of fighting off that foreign penetration. I think it is essential that that continue, and I think it is important today for you to share with us exactly what the plans are at Chrysler to reverse the international trends that have been so hurtful to the United States as a whole.

Finally, reference was made by the Chairman to lobbyists involved in this effort. I must say, there are lobbyists on both sides, and a number of them arguing for and against this proposal. I think in the end, having worked now on this committee for 3 years, that both the members of this committee and the members of the Senate are going to make their individual judgments based on the facts of the case.

I think they are going to make their decision based on their sense of what is good for the country as a whole. And this is a tough question. It is not the first time we have faced it. As the chairman well knows, Chrysler is not the first auto company to come in and ask for Federal help. American Motors arrived before you did. They have been given help in a number of ways, at least seven different major items. And that help has paid off.

American Motors today has a market share of 1 percent and is profitable. So I think it shows that intelligent Government intervention can pay dividends. And so I think it is important now that we examine the facts of the Chrysler case and try to make a decision on the merits of this particular instance.

I look forward very much to your responses today, and I know that they will be in the same candid and direct fashion in which you always respond to questions and issues. I am delighted to have you here.

The CHAIRMAN. Senator Tower?

STATEMENT OF SENATOR TOWER

Senator TOWER. Thank you, Mr. Chairman.

First let me say that if Mr. Iacocca and others had been successful in their efforts to reduce the level and degree and intensity of government intervention in the business community, we probably wouldn't be holding this hearing here today. And if indeed they had been successful, I think that none of us would want to intervene in a market-regulated economy to try to salvage one particular company whose management decisions were solely responsible for any problems that it faced.

But that is not the case. We don't operate in a purely market-regulated economy. People keep saying, let the free enterprise system work, and if Chrysler can't stand the gaff they have to go down the drain.

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In fact, we don't have a free enterprise system in this country, because Government imposes an enormous regulatory burden on the business community in this country, sometimes arbitrarily and unreasonably. Organized labor, operating behind a statutory wall of protection, demands and gets increases in wages and benefits, and very often reduced productivity or reduced hours. So we don't have a market regulated economy in this country, and Government is partially responsible, and that has to be considered when we get into an issue of this kind.

On the matter of lobbying, I believe that it is really unseemly of a politician or a Member of the Congress to castigate lobbies, because lobbying is a manifestation of the right of every American or every group of Americans that have a vested interest in what government does to exercise their influence on government.

Government is, after all, a large and awesome power in this country. It is the most powerful entity. And I think citizens, individually and collectively, have a perfect right to lobby or to employ the most expert lobbyists they can. And it happens on all sides of every issue.

Certainly it is difficult to complain about lobbying from the private sector, when indeed the Administration is engaged in enormously costly campaigns to the taxpayer to lobby for the ratification of the SALT agreement. I won't inject that into this discussion, because it doesn't belong here. But I think it is worthy of mention.

So I think we ought to keep the rhetoric at reasonable levels and not suggest that Chrysler and Chrysler's friends or the people who have some vested interest in the economic health of the Chrysler Corp. are engaged in some sort of nefarious activity when they lobby.

STATEMENT OF SENATOR TSONGAS

The CHAIRMAN. Senator Tsongas?

Senator TSONGAS. I wasn't going to make any statement, but I just would not want Mr. Iacocca to believe that most people in the Congress believe that Chrysler's problems are as a result of regulation. It seems to me if this country decides it wants clean air, that may be an infringement philosophically of the free enterprise system, but it is a step I think we all want to take.

In terms of the regulation of fuel efficiency, I think your industry does not have a very good record in terms of meeting what were, in retrospect, the obvious needs of a fuel-efficient automobile. It seems to me that there are many who would argue that the law that was passed in 1975 actually aided the industry by providing the impetus for that kind of research and development.

I just want you to know there is a diversity of opinion on this committee on that particular issue. I look forward to your testimony.

The CHAIRMAN. Go ahead, sir. We are looking forward to your testimony.

Senator RIEGLE. Senator Kassebaum.

The CHAIRMAN. My apologies. Heavens.

Senator KASSEBAUM. I have no opening statement.

The CHAIRMAN. That is the blunder of the year.

Senator KASSEBAUM. I hope not.

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The CHAIRMAN. Go ahead, Mr. Iacocca.

STATEMENT OF LEE IACOCCA, CHAIRMAN OF THE BOARD, CHRYSLER CORP.

Mr. IACOCCA. Thank you, Mr. Chairman. I appreciate this opportunity to appear before your committee to simply present Chrysler's case for government assistance. My testimony today is in part a response to some very important questions contained in the letter which you and Senator Garn sent to Secretary Miller a few days ago.

In the interest of time, I will summarize certain sections of my prepared statement. But I would like permission to——

The CHAIRMAN. The entire statement will be inserted in full in the record.

Mr. IACOCCA. I would like to go beyond the allotted 10 minutes to be responsive to the key questions you raised in your letter.

The CHAIRMAN. Fine.

Mr. IACOCCA. This is my first anniversary with the Chrysler Corp. It has not been a vintage year for me, for Chrysler, for the auto industry, or, for that matter, the whole country.

When I joined this company, I knew it had lots of problems. I knew there were some policies and practices that had to be changed. I knew basic improvements in our cost structure had to be made and fast.

COST STRUCTURE REDUCED $1 BILLION

Those changes have been made. We have reduced our costs in this first year by $1 billion. We are going through the painful process now of reducing our salaried employment by 8,500 people, and that number will probably go up.

We have a new management team. Of the top six management positions in the company, five are filled by new experienced people.

Most important, we do have a new product and operating plan designed to restore Chrysler to profitability.

One year ago, I also knew about the heavy impact of Government regulation on this country. I have been at it 33 years. It is a massive cost burden which falls more heavily on Chrysler than on our two larger competitors. It has increased our expenditures to over double the size it would normally be.

The cold fact is that, regardless of our huge losses, regardless of a recession—and it is a deep one—and slumping sales of cars and trucks, regardless of a prime interest rate of 15½ percent, we must continue to spend $160 million each and every month, or we will be in violation of some law.

A prudent businessman would right now start cutting back. We cannot cut back. Now, attempts have been made in the past to modify some of the more burdensome product regulations in order to provide some cost relief to the company.

The shocking part about the regulatory crunch—and that is only a piece of our problem, which we will discuss later—is that we are getting so little for the extra or excessive regulations. Do you know that we took out the first 58 grams of pollution in our cars for $25? By contrast, to go from the 1980 to 1981 standards, we now will

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reduce emissions by another 5 grams per mile, just 5. But those 5 will add $238 to the price of a new car.

In other words, the last 5 grams will cost the public nearly ten times as much as the first 58 grams.

By the way, in 1972 at Chrysler they filed 14,000 pages to conform to the regulations with the Environmental Protection Agency, in order to certify the cars. In 1978, we filed not 14,000 pages, but 228,000 pages. You would have to admit that a 1,000-percent increase is too much.

And airbags are the same kind of story. They cost 68 times as much as the belts they replace, but they do not do as good a job of protecting in an accident as buckled belts.

The regulations—believe me, I feel this keenly—all start out as good things to do: Improve safety, reduce air pollution, and improve fuel economy. The trouble is the regulators sometimes, in interpreting the wishes of the Congress, don't know how to stop or even to let up a little.

The regulations do get tighter and more expensive, and something then has to give.

That is enough on regulation. The gut issue of the moment is not regulation; it is energy, because—then came the event this year that nobody anticipated, and I mean nobody. That was the Iranian crisis of last March, not to be confused with the Iranian crisis of 12 days ago or the one of yesterday, and the failure of this Nation's fuel allocation system last March to adjust to even a minor disruption in the flow of Middle East oil.

You know this, but gas lines in California, New York, and Washington, D.C., a couple of riots in Levittown on prime TV every night, they did take their toll and the bottom dropped out of the car and truck sales last spring. As a result of that factor primarily, believe me, Chrysler reported a third quarter pretax loss—staggering—of $469 million in the United States.

And remember, all that third quarter report happened prior to the Federal Reserve Board action of October 6, which starts a new quarter.

Was it entirely the result of mismanagement? I want to put this to rest real quick at this hearing. I would say half of it was terrible mismanagement, at least half of it. Well, the Ford Motor Co.—I spent 30 years there, too—had a pretax third quarter operating loss in the United States of $678 million. The paper this morning says that is going to go to over $1 billion.

General Motors, however, had a pretax third quarter operating loss—we've got to approximately this number a little bit—of $299 million. Was that mismanagement? Maybe the critics of Chrysler ought to start taking another close look.

The total third quarter losses for the big three—the big golden goose industry in 90 days managed to lose $1.4 billion in the United States. The other guys made some money in Europe. We didn't. That means that every car sold in the United States in the third quarter by GM, Ford, and Chrysler lost $500 a copy.

Something, gentlemen, is wrong somewhere. We can't all be bad managers. Maybe, just maybe, government regulation has, in fact, gone a little too far. Maybe American productivity has slipped because regulation has drained off some capital that should be

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going for invention and innovation. Maybe the need for a sound energy policy, deregulation and conservation is being reflected in lower car sales and in the general malaise in this country.

Those are good questions for another time and another hearing. Today, I would like to speak on behalf of the thousands of people at Chrysler who are working very hard to save a great company. We need help, and we need it soon. We have to come to the Federal Government. I might say, I come with great reluctance. But I come in genuine need, to ask for a loan guarantee to support our efforts to try to restore Chrysler to profitability.

The administration has offered up, as you know, a bill which calls for $1.5 billion in loan guarantees. We appreciate the initiative of President Carter in helping to solve this serious national problem, and we support the bill he has proposed.

However, I hope the question of a loan guarantee will not be a partisan issue. Chrysler is represented in every State in the country, and we do need the support of all of the Members of Congress. Chrysler's request for Federal assistance has been the subject of public debate for more than 3 months now, and in the course of these discussions several persistent myths have been dispelled, I hope, and some extremely important facts have been established.

FUTURE PLANS

Among these facts are the following: Fact 1: Chrysler is a traditional leader in fuel economy. Chrysler builds more small cars, as a percentage of its total production, than either General Motors or Ford. Fact 2: Chrysler's plan for the future calls for even smaller and even more fuel-efficient cars and trucks. Less than 1 year from now—in fact, I am counting the months, 10 months in October of next year, September, roughly—we will be able to offer to the public more than 1 million 4-cylinder front-wheel-drive small cars on an annual basis, all in the 25- to 30-mile-per-gallon range.

Fact 3: Chrysler has received no offers to merge with any company, domestic or foreign. Fact 4: A loan guarantee we are seeking would allow us to borrow from private lenders at no cost to the taxpayer. Every cent of the loans will be repaid and with interest.

Fact 5: If Chrysler should fail, the country would lose 500,000 to 600,000 jobs in the short term, and probably 200,000 to 300,000 jobs in the long term, many of them to overseas companies. It is fair to say that there is now, I think, a general understanding of the facts I have just recited. And based on these facts, a great number of people have made a judgment that loan guarantees to Chrysler are in the best interests of this country. However, in the past several weeks additional and recurring questions have been raised, including the ones in Chairman Proxmire's and Senator Garn's letter to Secretary Miller.

I would like to briefly address some of those questions. Question 1: We have been asked about the serious precedent which would be established if Chrysler receives a loan guarantee. We are breaking no new ground with our request. There are now outstanding Federal loans and loan guarantees in the amount of $409 billion. Loan guarantees have gone to steel companies in the past; to chemical

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companies; to shipbuilders; to railroads; to airlines; to farmers; and yes, to small businesses.

The Federal budget today lists outstanding loan guarantees totaling $10.4 billion in the year 1980, just for small business in this country. They don't call them "bail-outs," but they are, in fact, the same kinds of loan guarantees sought by the Chrysler Corp.

Nor are we the first automobile manufacturer to ask for Federal assistance. In 1967, American Motors received a special Federal tax credit which resulted in a cash rebate of $22 million. In 1970, American Motors was granted special permission to purchase emissions control technology from GM as an exception to the Federal court consent decree. In 1974, American Motors was designated a small business by the Federal Government in order to give it preferential treatment in its request for government contracts. In 1977, American Motors was granted the right to request a 2-year waiver from the final emissions standards for oxides of nitrogen. In 1979, American Motors' request for a waiver was granted for the EPA, and a similar waiver would have saved Chrysler over $300 million.

We have explored a number of different ways whereby we might be able to overcome the problems brought on by the pressure of these regulations I refer to. I might add parenthetically, in the numbers I gave you, Mr. Chairman, in the losses of the third quarter, it wasn't ironic, it was a good job on the part of American Motors. They were the only company in the United States in the black, with a $10.6 million third quarter. So the response of this Congress in years gone by to American Motors, I think, was a good investment. And it is paying off now.

But in 1978, what did Chrysler do? Well, we asked Members of Congress to consider the feasibility of the 2-year moratorium on all automotive standards, a freeze. The request was rejected. We asked Members of Congress for a 2-year delay on the imposition of the 1980 and 1981 emission standards, which are really tough. A 2-year delay on emissions standards would have saved Chrysler a total of over $600 million in costs for the 1980–81 models. That request was rejected.

We asked for a form of accelerated tax credits to offset some of the costs of government regulations. That request was rejected, almost with a laugh. The fact is that where American Motors has received help, we have received none. So I am here today to request Federal assistance in keeping with the well established precedent set over many years for American industry in general and for an American car company in particular.

Another question: Chrysler has been criticized for wanting to remain a full-line manufacturer instead of building only small fuel efficient automobiles. I suspect that a great number of people have assumed that a full-line company, by definition, is a producer of big, full-size gas-guzzling cars. That is not true.

Last week, Secretary Miller pointed out that by 1985, Chrysler would build a full line of cars in three sizes: small, smaller and smallest. I think that says it pretty well. Put another way, we will build some 6-passenger cars, we will build some 5-passenger cars and we would build over 1 million 4-passenger cars. Chrysler will be doing this because of the nature of the market. We do not make

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the market. We are in business to try to respond to its needs, and oftentimes we are late.

We try to—let me make it clear by establishing three basic points. One, by 1985 all of our cars will be small and fuel efficient. Today we produce a full line of cars based on five basic what we call car platforms or families. By 1985, we will produce a full line of cars based on only three basic platforms, all front wheel drive, hopefully, all highly fuel efficient.

In fact, by 1985 our full-size family car will be able to go more than twice as far on a gallon of gas as the 1975 counterpart. All cars, as you know them today on the street, will have been weight-reduced by at least 1,000 pounds each. In 1985—a point often overlooked—20 percent of the car buyers in America will still need 6-passenger family-size cars. That happens to be our best estimate today, looking out 6 years. But there are today 26 million single-car families in the United States with three or more kids. That means there is a single car in the household with five or more people begging for the use of it.

I ask you: why should General Motors end up with the new family-size market all to themselves, especially when that is where all of the profits happen to be? We look out for those potential 2 to 3 million car buyers a year of a family-size car, with one proviso that it gives at least an honest 25 miles to the gallon. Keep in mind, by the way, nobody inside or outside the industry is projecting the compact and smaller segment, essentially the 4-passenger 4-cylinder market, to rise as high as 65 percent of the total market by 1985. That leaves 35 percent or about 4 million cars a year as more commodious sedans and wagons, but very fuel efficient.

Three, no American producer of automobiles can remain profitable or become profitable by producing only a single line of small cars. The variable profit margins on the smallest cars are simply not adequate to maintain a car company in the U.S. Foreign manufacturers of small cars are able to compete in this country by virtue of the lower wage rates, which in Japan are about half of ours. And these manufacturers also in the past have received substantial government assistance in their home countries, especially for exports. Moreover, they are able to ship to this country incremental and therefore highly profitable production from the foreign assembly plants.

American Motors is often used as an example today, of the successful single-line car company, yet that company in the future will rely entirely on the assembly of Renault automobiles. These automobiles are designed and tooled in France, where wages are much lower than they are in America. By the way, we believe that the people of this Nation will not tolerate for very long the continued export of American jobs overseas. We would be shortsighted if the actions of the Congress regarding Chrysler would have the effect of turning over an even greater share of the American car market to foreign competitors.

Mr. Chairman, and I feel strongly about this, we can beat the foreign imports in their strongest segment of the U.S. market. We cannot maintain the financial strength to do it if we are only a producer of one line of small cars. Our independent financial and business advisers, Booz, Allen & Hamilton and Salomon Brothers,

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and the advisers to the Secretary of the Treasury and the Secretary himself have all reached this same conclusion.

BANKRUPTCY ANALYSIS

It has been suggested that a reorganization of the company under bankruptcy would allow the company to return to profitability. I know there are certain expert analysts who suggested the new bankruptcy laws might well be able to handle the Chrysler problem. We can't afford the risk of making our company the test case. I doubt if anyone who would buy a new car, anybody in this room would buy a new car from a company that has declared bankruptcy or that had gone through a bankruptcy proceeding. Just the whisper of bankruptcy will shut off the cash flow to our company.

A domino effect sets in. Customers would cancel their orders. Dealers would lose their ability to finance their own purchases from the factory, which they have to. Suppliers would demand payment for goods in advance, or at the very least on a c.o.d. basis. Bankruptcy proceedings would prevent Chrysler from making further payments to existing creditors. Many supplier companies would also face bankruptcy. The strain would be particularly difficult for thousands of smaller companies who depend almost entirely on Chrysler for their existence.

But by far, and most important, the retail customer would worry particularly about future warrantee coverage, but mostly the availability of parts and service. But most of all, he would worry about a big loss in his basic investment, and that is the resale value of his car. All you have to do is look at what happened when Nash and Hudson went bankrupt. What happened to the people holding those cars?

It has been said that even with loan guarantees, Chrysler Corp. will flee the cities, leaving thousands of people unemployed. That is not true. We will stay in Detriot, St. Louis, Newark, Syracuse, Kokomo, Indianapolis, and all of the other big cities in which we now provide employment.

It is true that we have announced plans to close a few marginal, older plants, but we will offset these actions with the expansion and modernization of other key plants. In the past 4 years alone, in the Detroit area, we have retooled and modernized the axle plant, and assembly plant, and engine plant, glass plant, a stamping plant, a test center, a truck terminal, and research and engineering facilities for a total new investment of $300 million.

In addition, we are currently investing $400 million for a new 4-cylinder engine, which will be built in our Trenton, Mich. plant, and $100 million in the modernization of a large assembly plant in the heart of Detroit, to get ready for these new K cars. Our plans call for futher investment in Detroit in the years ahead. We expect Chrysler employment in the city to be fairly well maintained. We have highly skilled work forces in Detroit and all the other cities in which we operate. And we intend to stay there.

It has been said that there are serious doubts about the accuracy of Chrysler's economic assumptions. Economic forecasting is hardly

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an exact science, these days, with the political and economic shock waves that we seem to experience every day.

I don't think anyone knows what is going to happen in the next 3 weeks, let alone in the next 3 years. But the fact remains that whether we like it or not in the auto business we have to plan 3 years ahead. Under the long lead times in our industry, our 1982 models are finished. They are frozen; they are locked up; we couldn't change them for better or for worse, and in the next few months we have to lock up our 1983 models. As a result, we have to look at long-term trends. That is what we have tried to do, using the most conservative estimates we can find.

The Chrysler operating plan is premised on a more conservative assumption than the economic projections of Data Resources Inc., Merrill-Lynch, Wharton and Chase Econometrics, in the areas of inflation for the future, consumer income, industry volume and gasoline prices. We believe we have been highly prudent in our planning for the future. It has been said our projected increases in market share are too optimistic. That is not true. In 1979, we had 10.2 percent of the U.S. car market. We have four new entries in 1980 in the intermediate segment, Chrysler LeBaron, Diplomat, Cordoba, and Mirada. We have strong entries although they are production limited, in subcompact market, with Omnis and Horizons.

And our plan for 1980 is just to hold that penetration at the 10.2 level, which I have to say is pretty lousy. For 1981, we project a conservative penetration increase from 10.2 to 11.1 percent, less than a 1-percent increase over 1980. The greatest part of this improvement comes in the compact segment, where we are going to introduce our all new K body front-wheel-drive, fuel-efficient cars.

We'll get 7 miles a gallon better fuel economy than the cars they replace, making them highly desirable in a fuel conscious market. This is an important point.

Just cutting the imports back to size—and I am dedicated to that, and I hope all of you are—from 23 percent to the more traditional 15 percent, a drop of 8 points—our share at 10 percent, we will pick up the full eight-tenths of 1 point between 1980 and 1981, taking that out of the hide of the Japanese.

In 1982 through 1985, we will follow with additional models of the new fuel-efficient, front-wheel-drive cars and vans. With that line of products, we project a total increase in our share of the car market all the way up to 12.1 percent by 1984. That is a 1 percentage point improvement over a period of 4 years. I hardly think that is over-ambitious. Keep in mind that in 8 of the last 10 years, Chrysler has had at least 12 percent of the market. In addition, over 14 percent of the cars on the road are Chrysler cars, so we do have a substantial owner field to draw on.

The share of the market we project falls midway between our current depressed level and our share of the total car owner body. We believe our sales projections are conservative. We have the new products to do even better, and I personally believe we are going to beat those projections.

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COST SAVINGS TOO OPTIMISTIC

It has been said that Chrysler's projected cost savings are too optimistic. That's not true. Many of our cost-savings initiatives have already produced in the past 12 months substantial gains for this company. We have announced the closing of some very old or marginal plants—one 70 years old, by the way—saving the company over $120 million a year on an annual basis.

We are reducing our work force, as we already mentioned, chiefly white collar, by some 8,500 people. That saves Chrysler $204 million a year by that action alone. We have reduced the salaries of our top 1,700 executives anywhere from 2 to 10 percent through a compensation deferral plan.

For the record, I now make $1 a year. The president of our company had his pay cut by 33 percent, and the base fees received even by our members of the board of directors have been cut in half. We have suspended all merit pay increases. We have suspended our thrift stock program under which the company makes employee stock purchases. It has been a long time, and that is why our employees today do own 30 percent of the Chrysler Corp., basically through that plan.

We have reduced all of our operating budgets. We have eliminated the dividend on common stock, and 2 weeks ago we deferred the dividend on the preferred stock.

Through a series of actions such as these, Chrysler has reduced its fixed costs by almost $600 million on an annual basis. Every dollar is in and accounted for. I assure you of that.

It has been said again in Mr. Proxmire's and Mr. Garn's letter that the profit margins predicted for Chrysler as early as 1981 are really unrealistic, that they do not take into consideration fluctuations in the economic climate that could make by 1984 and 1985 a projected 4 percent return on sales. Well, we don't agree with that.

Our profit margin expectations in large part rest on improvements resulting from heavy investments in new tooling, new manufacturing techniques, better quality, and lower warranty costs. These improvements are real, because in turning this industry around and spending all this money, we are starting with a clean sheet of paper, and now we can put in new manufacturing techniques along with new products.

These actions I can account for dollar for dollar. Through a combination of improved product planning, engineering, and manufacturing, we now have in hand for 1982 an average increase in per unit profitability of $593 a car and $330 per truck.

Chrysler will improve variable profit margins by $900 million on an annualized basis by 1982. By the way, the Treasury advisers feel that that $900 million number, for example, could be 15 to 19 percent too high. We don't quarrel with that estimate, but we have some reservations on their analysis.

It has been said that Chrysler will need far more Federal help than it has requested and that $1.5 billion may not be enough. It was said in the House hearings, I will be back hat in hand. I assure you I will not be. That is not true. The $1.5 billion in loan guarantees contained in the administration bill is adequate.

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We very carefully evaluated our needs and the extent of our cash shortfall before we even approached the Treasury Department. We investigated every possibility for raising funds without jeopardizing the long-term future of the company. Our analyses show we would have a peak cash shortfall of $2.1 billion in 1982. We said we could cover of that $2.1, $900 million. That left us $1.2 billion short.

As you know, our original proposal was for $1.2 billion in loan guarantees. The administration bill, which simply acknowledges the negative effect of recent economic developments since the announcement of October 6, and they provide beyond that $300 million of $1.5 billion in guarantees.

Under its proposal, the Treasury would issue loan guarantees in amounts of up to $1.5 billion if Chrysler could match that amount with financial commitments or concessions of its own. $1.5 billion is a substantial sum which will come with great difficulty, but with the vote of confidence from the Government which loan guarantees represent, other sources will be willing to come forward, and some already have.

The United Auto Workers has agreed to a contract which provides a little over $200 million in net savings to Chrysler. The State of Michigan has put together a package that is worth $160 million, subject to the passage of a federal loan guarantee program. We are now negotiating with the states of Ohio, Illinois, Delaware, Missouri, Indiana, Alabama, and New York for an additional $100 million. We are discussing right now with Canada provisions for financial assistance of $150 million to $300 million. We are even considering a private placement of preferred stock of up to $200 million among our various family constituents—a private offering, not public, I might add.

The sale of some assets such as Peugot stock, in certain real estate holdings, could raise up to $300 million. We would hope to be able to retain Chrysler Financial, our Huntsville Electronics operations, and our New Process gear operation which are an important source of future profits and vital to our forward plans.

We are negotiating with our banks—and this is a tough one—and our other lenders for an additional—an additional $400 million in new money, plus an extension of the terms of our present loans.

The total of these sources is about $1.5 billion. We have every incentive to draw down no more than the Government-guaranteed funds than is absolutely necessary. Keep in mind, every $100 million of loans costs us another $15 million today in interest costs. $1 billion, if we do it then, would cost $150 million a year. We are already paying $200 million in interest costs, none of which are tax deductible since we don't have at the moment any profits to deduct them from.

That is one of my dilemmas $200 million in interest costs, and $300 million I'm paying this year to State and local government taxes—those are $500 million out of pocket. I have got to fund those, and I can't deduct them. I pay $2 to GM's and Ford's $1. That is my problem.

Mr. Chairman, I believe these answers are responsive to the majority of the questions which have been raised concerning Chrysler's request for assistance. Quite frankly, there is no one

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here today, including me, who can give absolute and total assurance that our future is guaranteed.

In the final analysis, the best assurance, as always, is provided by skilled and experienced management.

NEW MANAGEMENT TEAM

In that regard, I would like to point out that Chrysler's management team is now composed of some of the most able and experienced automobile men in the entire world. That team is well-equipped to make the decisions and the judgments which should restore Chrysler to a position of strength.

If I didn't believe that Chrysler had a strong future, I would not have accepted this job. I would have stayed in retirement. Nor would all the other talented people have joined us in the last year. If the old-fashioned American virtues of dedication and hard work still work in this country—and I believe they do—we will not fail. Our people are the hardest working, most dedicated individuals I have ever been associated with, and they do believe in this company. And they are working against great odds, and they receive far too little encouragement.

But they and I believe that Chrysler has a future and a purpose as a strong competitor against the foreign car makers, as well as against GM and Ford. This country needs Chrysler, in spite of what some self-styled experts would have you believe. But we really need your help, and speed is essential.

The recent events in Iran, the weakening of our economy at home, the rise in interest rates—and I don't know where they stop—and the continued speculation about Chrysler's viability make it imperative that the Congress act quickly to approve this request for help.

I can only hope that you will give it fair and honest consideration. Thank you very much.

[Prepared statement of Mr. Iacocca follows:]

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Statement by Lee A. Iacocca, Chairman of the Board, Chrysler Corporation, before the U.S. Senate Committee on Banking, Housing and Urban Affairs, November 15, 1979

Mr. Chairman. I appreciate this opportunity to appear before your committee to present Chrysler's case for government assistance. I can assure you that the need for assistance is real, and the need for prompt action becomes more apparent every day.

I urge this committee to take early action on the bill now before it so we can get on with the job of restoring Chrysler to profitability.

Internal Changes at Chrysler

Mr. Chairman, this past week marks my first anniversary with Chrysler Corporation. It has not been a vintage year for me, for Chrysler, for the auto industry, or for that matter ... the country.

When I joined this company I knew that it had lots of problems. I knew there were some policies and practices that had to be changed. I knew basic improvements in our cost structure had to be made -- and fast.

Those changes have been made. We have reduced our costs by a billion dollars. We are going through the painful process of reducing our salaried employment by 8500 people. We have a new management team. Of the top six management positions in the company, five are filled by new experienced people. And most important we have a new product and operating plan designed to restore Chrysler to profitability.

Effect of Government Regulation

One year ago, I also knew about the heavy impact of government regulation on this company. It is a massive cost burden which falls

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more heavily on Chrysler than on our two larger competitors. It has increased our expenditures to over double the size they would normally be. The cold fact is that regardless of our huge losses, regardless of a recession and slumping sales of cars and trucks, regardless of a prime interest rate of 15-1/2 percent, we must continue to spend $160 million each and every month, or we will be in violation of the law. A prudent businessman would cut back -- we can't.

Attempts were made to modify some of the more burdensome product regulations in order to provide some cost relief to the company.

The shocking part about the regulatory crunch is that we're getting so little for all this extra regulation. Did you know that we took out the first 58 grams of pollution for only $25 in new car cost? By contrast, to go from 1980 to 1981 standards we will reduce emissions by another 5 grams per mile, but it will add $238 to the price of a new car. In other words, those last 5 grams will cost the public nearly ten times as much as the first 58 grams.

By the way, in 1972, we filed 14,000 pages with the Environmental Protection Agency to certify our cars. In 1978, we filed 228,000 pages!

Air bags are the same kind of story. They cost six to eight times as much as the belts they replace, but they don't do as good a job of protecting you in an accident as buckled belts.

The regulations all start out as good things to do -- improve safety, reduce air pollution, improve fuel economy. The trouble

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is the regulators don't know how to stop, and the regulations just get tighter and more expensive until something has to give.

Third Quarter Losses for Big Three

Then came the event that nobody anticipated -- the Iran crisis of last March (not to be confused with the Iran crisis of twelve days ago), and the failure of this nation's fuel allocation system to adjust to minor disruption in the flow of Middle East Oil. Gas lines in California, New York, and Washington, and riots in Levittown, all on prime time T.V., took their toll -- the bottom dropped out of car and truck sales last spring.

As a result, Chrysler reported a third quarter pre-tax loss of $469 million in the U.S. -- all this happened prior to the Federal Reserve Board actions of October 6th.

Was Chrysler's third quarter loss entirely the result of mismanagement? Well, the Ford Motor Company had a pre-tax third quarter operating loss in the U.S. of $678 million. By the closest reckoning we can get, General Motors had a pre-tax third quarter operating loss in the U.S. of $299 million. Was that mismanagement? Maybe the critics of Chrysler ought to take another look.

The estimate is that total third quarter losses for the Big Three were $1.4 billion in the U.S. That means that every car sold in the U.S. in the third quarter by GM, Ford, and Chrysler lost about $500 a copy.

Something is wrong somewhere. We can't all be bad managers. Maybe government regulation has in fact gone too far. Maybe American productivity has slipped because regulation has drained off capital that should be going for invention and innovation. Maybe the need for a sound energy policy is being reflected in lower car sales and in the general malaise in this country.

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Those are good questions for another time and another hearing. But today I want to speak on behalf of the thousands of people at Chrysler Corporation who are working very hard to save a great company.

Carter Guarantee Plan is Sound

We need help, and we need it soon. We have come to the federal government, with great reluctance but in genuine need, to ask for loan guarantees to support our efforts to restore Chrysler to profitability.

The Administration has offered up a bill which calls for $1.5 billion in loan guarantees. We appreciate the initiative of President Carter in helping to solve this serious national problem, and we support the bill he has proposed. However, we hope the question of a loan guarantee will not be a partisan issue. Chrysler is represented in every state in the country, and we need the support of all the members of the Congress.

Facts About Chrysler

Chrysler's request for federal assistance has been the subject of public debate for more than three months now. In the course of these discussions, several persistent myths have been dispelled and some extremely important facts have been established. For the record, I would like to restate just a few of these facts so we can all move forward toward a more productive discussion of other questions concerning our program for the future.

Let me quickly list these facts.

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Fact Number One -- Chrysler is a traditional leader in fuel economy. Chrysler builds more small cars as a percentage of its total production than either General Motors or Ford. Chrysler has more entries getting over 23 miles per gallon than either General Motors or Ford. Chrysler was the first American producer of small front-wheel-drive cars, ahead of General Motors and Ford. There are now more than 500,000 Omnis and Horizons on the road, more of that type car than either General Motors or Ford.

Fact Number Two -- Chrysler's plan for the future calls for even smaller, more fuel-efficient cars and trucks. Less than one year from now we will be able to offer to the public more than one million four-cylinder front-wheel-drive small cars on an annual basis, all in the 25-30 mpg range. By 1985, all of our cars will be front-wheel-drive, all will be highly fuel-efficient, and all will be fully competitive in the market.

Fact Number Three -- Chrysler has received no offers to merge with any company, domestic or foreign. We have rejected no offer to buy Chrysler, and we have rejected no offer to consider any form of joint venture.

Fact Number Four -- Chrysler is not asking for a hand-out or a bail-out. We are asking for a helping hand. The loan guarantees we are seeking will allow us to borrow from private lenders at no cost to the taxpayer. Every cent of the loans will be repaid, with interest.

Fact Number Five -- Chrysler, its suppliers, and its dealers, provide employment for more than a half-million American workers. If Chrysler should fail, according to a study by Data Resources, Inc., the country would lose 500,000 to 600,000 jobs in the short-term, and

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200,000 to 300,000 jobs in the long-term, many of them to overseas companies. The impact of unemployment would be nationwide. Chrysler is represented in every state and every Congressional district in this country.

It is fair to say that there is now a general understanding of the facts I have just recited. And based on these facts, a great number of people have made a judgment that loan guarantees to Chrysler are in the best interests of the country.

However, in the past several weeks, additional or recurring questions have been raised, many of them by members of this Committee and by other members of Congress. Chairman Proxmire and Senator Garn have written a detailed letter to Secretary Miller raising a number of questions about the Chrysler proposal. They are important questions which deserve a full answer, and I would like to devote some additional time beyond my allotted 10 minutes to answer them in my prepared testimony.

Precedent Has Been Established

I have been asked about the serious precedent which would be established if Chrysler receives a loan guarantee.

We are breaking no new ground with our request. There are now, outstanding, federal loans and loan guarantees in the amount of $409 billion. Loan guarantees have gone to steel companies, to chemical companies, to shipbuilders, to railroads, to airlines, to farmers, and yes, to small businesses. The federal budget lists outstanding loan guarantees totalling $10.4 billion in 1980 just for small businesses in this country. They don't call them bail-outs, but they are in fact the same kinds of loan guarantees sought by Chrysler Corporation.

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American Motors Precedent

Nor are we the first automobile manufacturer to ask for federal assistance.

In 1967, American Motors received a special federal tax credit which resulted in a cash rebate of $22 million.

In 1970, American Motors was granted special permission to purchase emissions control technology from General Motors as an exception to a federal court consent decree.

In 1974, American Motors was designated a small business by the federal government in order to give it preferential treatment on its requests for government contracts.

In 1977, American Motors was granted the right to request a two-year waiver from the final emissions standards for oxides of nitrogen.

In 1979, American Motors' request for a waiver was granted by EPA. By the way, a similar waiver would have saved Chrysler over $300 million.

We have explored a number of different ways whereby we might be able to overcome the problems brought on by the pressure of these regulations.

Chrysler's Requests Denied

In 1978 we asked members of Congress to consider the feasibility of a two-year moratorium on all automotive standards. Our request was rejected.

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In the spring of this year, we petitioned the Department of Transportation for relief from the 1982 air bag standard. Our petition was rejected.

We asked members of Congress for a two-year delay in the imposition of the 1980 and 1981 emission standards. Let me point out here that a two-year delay of emissions standards would have saved Chrysler a total of over $600 million. Our request was rejected.

We asked for a form of accelerated tax credits to offset the cost of government regulations. Our request was rejected.

The fact is that where American Motors has received help, we have received none. So I am here today to request federal assistance, in keeping with a well-established precedent set for American industry in general and for an American car company in particular.

Chrysler Should Offer Full Line of Cars

Chrysler has been criticized for wanting to remain a full-line manufacturer instead of building only small, fuel-efficient automobiles.

We probably stand guilty of not explaining our position well enough because this persistent criticism represents a misunderstanding of some basic facts about the automobile industry.

I suspect that a great number of people have assumed that a full-line company, by definition, is a producer of big, full-size gas-guzzling automobiles. Not true. Last week Secretary Miller pointed out that by 1985 Chrysler would build a full line of cars in three sizes -- small, smaller, and smallest. That says it pretty well. Put another way, we will build some 6-passenger cars, some 5-passenger cars and about a million 4-passenger cars.

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Chrysler will be doing this because of the nature of the market. We do not make the market. We are in business to respond to its needs.

Let me try to make it clearer by establishing three basic points.

(1) By 1985, all of our cars will be small and fuel-efficient. Today, we produce a full line of cars based on five basic "car platforms." By 1985, we will produce a full line of cars based on only three basic platforms, all front-wheel drive, all highly fuel-efficient. In fact by 1985, our full-size family car will be able to go more than twice as far on a gallon of gas as its 1975 counterparts. (There will be two door models, four door models, station wagons and sporty cars, with a wide range of options all across the board -- in other words, a full line of cars in response to the needs of the American car buyer. All cars, as you know them today, will have been weight reduced by about 1000 pounds.)

(2) In 1985, 20 percent of the car buyers of America will still need six-passenger family-size automobiles. (That is our best estimate.) There are about 26 million single car families in the U.S., with 3 or more kids -- that is a single car for 5 people. Why should General Motors have the family-size market all to themselves, especially when that is where the profits are?

We must offer those potential 2-3 million car buyers a family-size car that gets at least an honest 25 miles per gallon. Keep in mind, no one inside or outside the industry is projecting the

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compact segment and small (essentially the four-passenger, four-cylinder market) to rise as high as 65 percent by 1985. That leaves 35 percent or about 4 million cars commodious sedans and wagons.

(3) No American producer of automobiles can remain profitable or become profitable by producing only a single line of small cars. The variable profit margins on the smallest cars are simply not adequate to maintain a car company in the U.S.

Foreign manufacturers of small cars are able to compete in this country by virtue of the lower wage rates (which in Japan are about half of ours). These manufacturers also receive substantial government assistance in their home countries. Moreover, they are able to ship to this country incremental and therefore highly profitable production from their foreign assembly plants.

American Motors is often used as an example of a successful single-line small-car company. Yet, that company in the future will rely on the assembly of Renault automobiles. These automobiles are designed and tooled in France where wages are lower than they are in America.

We believe that the people of this nation will not tolerate for very long the continued export of American jobs overseas. It would be short-sighted indeed if the actions of the Congress regarding Chrysler would have the effect of turning over an even greater share of the American car market to foreign competitors.

Mr. Chairman, we can beat the foreign imports in their strongest segment of the U.S. market. But we cannot maintain the financial strength to do it if we are only a producer of one line of small cars.

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Our independent financial and business advisers -- Booz, Allen & Hamilton and Salomon Brothers and the advisers to the Secretary of the Treasury and the Secretary himself have all reached the same conclusion.

Bankruptcy Unacceptable

It has been suggested that a reorganization of the company under bankruptcy would allow the company to return to profitability.

I know there are certain expert analysts who suggest that the new bankruptcy laws might well be able to handle the Chrysler problem. But we cannot afford the risk of making our company the test case.

I doubt if anyone here would buy a new car from a oompany that had declared bankruptcy or that had gone through bankruptcy proceedings.

Just the whisper of bankruptcy will shut off the cash flow to our company. A domino effect would set in. Customers would cancel their orders. Dealers would lose their ability to finance their own purchases from the factory. Suppliers would demand payment for goods in advance or at the very least, on a C.O.D. basis.

Bankruptcy proceedings would prevent Chrysler from making further payments to existing creditors. Many supplier companies would also face bankruptcy. The strain would be particularly difficult for thousands of smaller companies who depend entirely on Chrysler for their existence.

The retail customer would worry particularly about future warranty coverage and the availability of parts and service. But most of all, he would worry about a big loss in his basic investment -- that is the resale value of his car.

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Chrysler Will Stay With The Cities

It has been said that even with loan guarantees Chrysler Corporation will flee the cities, leaving thousands of people unemployed. Not true. We will stay in Detroit, St. Louis, Newark, Syracuse, Kokomo, Indianapolis, and all the other big cities in which we now provide employment.

It is true that we have announced plans to close a few marginal, older plants. But we will offset those actions with the expansion and modernization of other key plants.

In the past four years in the Detroit area alone, we have re-tooled and modernized an axle plant, an assembly plant, a glass plant, an engine plant, a stamping plant, a test center, a truck terminal, and research and engineering facilities, for a total new investment of $300 million.

In addition, we are currently investing $400 million for a new four-cylinder engine which will be built in our Trenton, Michigan plant, and $100 million in the modernization of a large assembly plant in the heart of Detroit.

Our plans call for even further investments in Detroit in the years ahead. We expect Chrysler employment in the city to be fairly well maintained. We have highly skilled workforces in Detroit and in all the other cities in which we operate. We intend to stay there.

Chrysler's Assumptions Conservative

It has been said that there are serious doubts about the accuracy of Chrysler's economic assumptions.

I will admit that economic forecasting is hardly an exact science these days. With the political and economic shock waves we all experience today, I don't think anyone knows what to expect

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in three weeks, much less in three years. Yet, the fact remains that we have to plan for three years ahead.

Under the long lead-times in our industry, our 1982 models are now locked up. We can't change them -- for better or for worse. In the next few months we will lock up our 1983s.

As a result, we have to look at long-term trends. That is what we have done, using the most conservative estimates we can find.

The Chrysler operating plan is premised on more conservative assumptions than the economic projections of Data Resources, Inc., Merrill Lynch, Wharton, and Chase Econometrics in the areas of inflation, consumer income, industry volume and gasoline prices. We believe we have been highly prudent in our planning.

Market Share Increase Is Attainable

It has been said our projected increases in market share are too optimistic. Not true. In 1979, we had 10.2 percent of the U.S. car market.

We have four new entries for 1980 in the intermediate segment of the market -- Chrysler LeBaron, Dodge Diplomat, Chrysler Cordoba, and Dodge Mirada. We have strong entries in the sub-compact market with our Omnis and Horizons. Our plan is to hold our penetration in 1980 at the 10.2 level.

For 1981, we project a conservative penetration increase to 11.1 percent, less than a one percent increase over 1980. The greatest part of this improvement comes in the compact segment where we will introduce our all-new K-body front-wheel-drive cars. These new cars will get about 7 miles per gallon better fuel economy

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than the cars they replace, making them highly desirable in a fuel-conscious market. Just cutting the imports back to size from 23 percent to 15 percent will pick up the entire penetration increase.

In 1982, through 1985, we will follow with additional models of new, fuel-efficient front-wheel-drive cars and vans.

With that line-up of new products, we project a total increase in our share of the car market to 12.1 percent by 1984. That is a one percentage point of improvement over a period of four years. I hardly think that is over-ambitious. Keep in mind that in eight of the last 10 years, Chrysler has had at least 12 percent of the market. In addition, over 14 percent of the total cars now on the road are Chrysler cars, so we have a substantial owner field. The share of the market we project falls midway between our current depressed level and our share of the total car owner body.

We believe our sales projections are conservative. We have the new products to do even better, and I believe we will beat these projections.

Projected Fixed Cost Savings Are Attainable

It has been said that Chrysler's projected cost savings are too optimistic. Not true.

Many of our cost saving initiatives have already produced substantial gains for the company.

We have already announced the closing of some very old or marginal plants, saving the company over $120 million per year.

We are reducing our workforce -- chiefly white collar -- by some 8500 people. This will save Chrysler over $200 million on an annual basis.

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We have reduced the salaries of our top 1700 executives anywhere from 2-10 percent through a compensation deferral program. For the record, I now make $1 per year; the President had his pay cut by 33 percent; and the base fees received by members of the Board of Directors have been cut in half.

We have suspended all merit pay increases. We have suspended a thrift stock program under which the company makes employee stock purchases. And we have reduced all operating budgets.

We have also eliminated the dividend on common stock, and deferred the dividend on preferred stock.

Through a series of actions such as these, Chrysler has reduced its fixed costs by nearly $600 million on an annual basis. Every dollar is in and accounted for.

Projected Profit Margins Are Attainable

It has been said that the profit margins predicted by Chrysler for as early as 1981 are unrealistic; that they do not take into consideration fluctuations in the economic climate that could make a projected 4 percent return on sales unattainable. We don't agree.

Our profit margin expectations, in large part, rest on improvements resulting from heavy investments in new tooling, new manufacturing techniques, better quality, and lower warranty costs. These improvements are real. They can be accounted for, dollar-for-dollar.

Through a combination of improved product planning, engineering, and manufacturing, we now have in hand for 1982 an average increase in per unit profitability of $593 per car and $330 per truck.

Chrysler will improve variable profit margins by $900 million on an annualized basis by 1982.

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Carter Aid Package Is Adequate

It has been said that Chrysler will need far more federal help than it has requested, and that $1.5 billion may not be enough. That's not true.

The $1.5 billion in loan guarantees contained in the Administration Bill is adequate.

We very carefully evaluated our needs and the extent of our cash shortfall before we first approached the Treasury Department.

We investigated every possibility for raising funds without jeopardizing the long-term future of the company. Our analysis showed we would have a peak cash shortfall of $2.1 billion. We said we could cover $900 million. That left us $1.2 billion short. As you know, our original proposal was for $1.2 billion in loan guarantees.

The Administration Bill, which simply acknowledges the negative effect of recent economic developments, provides for $1.5 billion in guarantees.

Under its proposal, the Treasury would issue loan guarantees in amounts up to $1.5 billion if Chrysler could match that amount with "financial commitments or concessions" of its own.

Sources of Unguaranteed Funds

$1.5 billion dollars is a substantial sum, which will come with great difficulty. But with the vote of confidence from the government which loan guarantees represent, other sources will be willing to come forward.

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Some already have.

The United Auto Workers has agreed to a contract which provides over $200 million in net savings to Chrysler.

The state of Michigan has put together a package that is worth $160 million, subject to the passage of federal loan guarantees.

We are now negotiating with the states of Ohio, Delaware, Missouri, Illinois, Indiana, Alabama and New York for an additional $100 million.

We are discussing with Canada provisions for financial assistance of $150 million to $300 million.

We are considering a private placement of preferred stock of up to $200 million among our various constituents.

The sale of some assets that are not essential to our manufacturing operation could raise another $300 million. We would hope to retain Chrysler Financial, our Huntsville Electronics operations, and our New Process Gear operation, all of which are an important source of future profits and vital to our forward plans.

We are negotiating with our banks and other lenders for an additional $400 million in new money plus an extension of terms on our present loans.

The total of these sources is approximately $1.5 billion. We have every incentive to draw down no more of these funds than is absolutely necessary. Keep in mind every $100 million of loans costs us $15 million in interest costs. A billion would cost us $150 million a year. We already are paying $200 million in interest costs -- none of which are tax deductible since we have no profits to deduct them from. We have a lot of incentive not to draw down these loans too fast.

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Importance of Good Management

Mr. Chairman, I believe these answers are responsive to the majority of the questions which have been raised concerning Chrysler's request for assistance. Quite frankly, there is no one here today who can give total assurance that our future is absolutely guaranteed. In the final analysis, the best assurance is that provided by skilled and experienced management.

In that regard, I would like to point out that Chrysler's management team is now composed of some of the most able and experienced automobile men in the entire world. That team is well equipped to make the decisions and the judgments which should restore Chrysler to a position of strength.

If I did not believe Chrysler had a strong future I would not have accepted this job. Nor would all the other talented people who have joined us in the last year.

If the old-fashioned American virtues of hard work and dedication still work in this country -- and I believe they do -- we will not fail. Our people are the hardest working, most dedicated individuals I have ever been associated with, and they believe in this company. They are working against great odds. They receive far too little encouragement. But they and I believe that Chrysler has a future and a purpose as a strong competitor against the foreign car makers as well as against G.M. and Ford. This country needs Chrysler -- in spite of what some self-styled experts would have you believe.

But we really need your help. And speed is essential. The recent events in Iran, the weakening of our economy at home, the rise in interest rates, and the continued speculation about Chrysler's viability make it imperative that the Congress act quickly to approve our request for help.

I can only hope that you will give it fair and honest consideration.

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The CHAIRMAN. Thank you, Mr. Iacocca, for a powerful and eloquent statement.

I want to pursue what Senator Heinz pursued yesterday in a little different way. He went after the prospect that what Chrysler should try to do is raise more equity money. I thought he made a very powerful case for it.

I want to start in with you, because you are not only the head of Chrysler, but you are a very big stockholder in Chrysler, as I understand it. You say you have reduced your salary, which you have as I understand to $1. You cut it from a base salary of $360,000. But in addition to that, you were to be paid $500,000 on January 2 of this year, $250,000 on March 31, $250,000 on June 30, and you were to be paid $250,000 next January 2 and $250,000 on June 30, 1980, for a total of $1,860,000. Have you renounced all of that?

Mr. IACOCCA. Not at all. I would be renouncing my whole life. I earned that $1.5 million at Ford, and Ford had a stipulation that if I competed, I would lose it all. So part of signing was for Chrysler to match what I gave up at Ford, but it took me 32 years. Most of that——

The CHAIRMAN. I'm not complaining about that. I just want to get the facts.

Mr. IACOCCA. The $1½ million I will get in installments through June of next year.

The CHAIRMAN. What you did was renounce the $360,000?

Mr. IACOCCA. Yes.

STOCK OPTION PLANS

The CHAIRMAN. In addition, you were given a stock option to buy prior to November 2, 1979, 400,000 shares of Chrysler at $6.25. Is that right?

Mr. IACOCCA. No. $11.25, the market price that day. I think——

The CHAIRMAN. I have a letter—"Pursuant to the nonqualified stock option plan, Chrysler shall grant to on November 2, 1979, an option to purchase 400,000 shares of its common, $6.25 par value stock."

Did you buy that?

Mr. IACOCCA. No, I have an option to buy it. I have a 3-year waiting period.

The CHAIRMAN. You can buy that any time the next 3 years?

Mr. IACOCCA. I wouldn't use my exercise to buy it at $11 when it is $7 on the market.

The CHAIRMAN. Yes. It is 6⅞ this morning. On the basis of yesterday's testimony, it dropped a half dollar a share. [Laughter.]

I don't know what will happen today. If you succeed, as you certainly have every expectation you will do and the Secretary of the Treasury as he thinks you will do, as Senator Heinz points out, in 1981, your stock will be earning $6 a share. And that 400,000 shares would earn $2.4 million. Three years from now, it would make $8 a share or $3.2 million for the stock that you could buy. Four years from now, it would be worth—it would be earning $10 a share or $4 million.

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And if the stock rises to, say, $30 a share based on that kind of earnings, you stand to make $12 million. What's wrong with that?

What's wrong with my figuring, I should say. [Laughter.]

Mr. IACOCCA. I don't think there's a lot wrong with it.

The CHAIRMAN. It's great from your standpoint.

Mr. IACOCCA. We said we have an operating plan which says we have a shot at making that. The board of directors did it not only with me, but we have nothing to offer people coming to our company that Ford and GM can't double. They give them options. But they give them bonuses equal to their salaries. I am competing for the best people in the world, but I have no weapons to play with except stock options, which says I will bet on the future of this company.

It is easily said, but I don't know what the market will be. I got an $11. If it goes to $15, I would make $4 a share.

The CHAIRMAN. This is the reason I bring up the next point. I feel very strongly that—and it was brought out yesterday, and Senator Heinz deserves the credit for this work, but I am scabbing him on it—that if you issued and sold 100 million shares, maybe you could sell them for $5 a share, maybe $7, maybe $10, maybe $3, maybe $4, but you could raise a substantial amount of money—very important certainly for a company in your position, as you know— that you have as much equity as possible.

And raising that equity would dilute your ownership, would reduce the prospects that you might have of making a substantial amount. It would certainly be in the interest of the corporation and greatly in the interest of the Government which is risking $1.5 billion.

Mr. IACOCCA. Mr. Chairman, I will try to respond to that.

You have a lot of investment bankers you will be talking to in the next 24 hours. You might ask them what the probabilities would be to have a public placement of common stock on Chrysler, if they could sell it. We can't even sell preferred stock at the moment. We have no possibility of raising money in the private sector on an equity basis today, because we lost $1 billion this year. They handle us like we have leprosy.

The CHAIRMAN. Don't you have a different kind of an outlet, however, for your stock if Congress approves this and provides you with $1.5 billion guaranteed from the Federal Government? There is a strong likelihood—I don't know when you—I don't think you would be hat in hand, but if you don't make it, we won't let the $1.5 billion go down the drain or the 140,000 or more jobs.

We are going to be—Congress is much more likely to approve it the second time than the first time because we would have so much in the pot.

Why isn't this an excellent investment for a prospective investor?

Mr. IACOCCA. We have to ask the market that. If we can sell equity stock of any kind—we just said to the common stockholder, "We are not going to pay you any dividends. We have no prospect of paying you dividends. How would you like to buy a stock at $5, $6, or $7 that will guarantee, at least in the short term, that you get nothing?"

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If you can go out and sell that, Mr. Chairman, I would go out with you. I don't think that can be done, but I would bow to the banking community, the investment bankers, if they could pull that off. I would gladly take equity on any basis today I could get it.

The CHAIRMAN. You know one of the first principles that I guess you learn if you invest in stocks at all is almost any stock is a good buy at some price and a bad buy at another price, so that if you offered your stock at a low enough price, why couldn't you raise a great deal of money with 100 million shares?

Mr. IACOCCA. I look at it differently. I use me as a living example. We say that it dilutes my stock options. I guess you realize that 30 percent today is owned by employees. It is easy to say let's use an ESOP plan or use this kind of a plan.

The CHAIRMAN. I'm not proposing that.

Mr. IACOCCA. But let's go dilute their investment in the company, that they took 20 years to get. These are the little people. I can't do that.

Senator HEINZ. On that point, Mr. Chairman, maybe Mr. Iacocca can tell me, are any of those people hourly paid employees?

Mr. IACOCCA. They are essentially salaried employees.

Senator HEINZ. It is not true according to the Joint Tax Committee that they are all members of management?

Mr. IACOCCA. No.

Senator HEINZ. Perhaps you would tell us if they are not——

Mr. IACOCCA. It is available to salaried employees, and for——

Senator HEINZ. As I understand it, it is salaried employees who are principal managers, who happen to have the 30 percent that you—and yesterday, Secretary Miller's——

Mr. IACOCCA. I would get that for you. I would doubt they are all managers.

Senator HEINZ. According to the Joint Committee on Taxation, they are, and if that is true it would obviously mitigate, I think, your implications. If it is not true, we would like to know.

The CHAIRMAN. The decision will be made, I presume, by the board of directors and by the management. Management will certainly have a big voice in it. As I say, to me it is very important to the Federal Government that you have as much equity out there as you can get, and there seems to be something of a conflict of interest here as to whether you are willing to dilute your ownership by selling more stock.

Mr. IACOCCA. If it would help the company we would take any equity—we are investigating every possible avenue to get equity. I don't want to take loans. You have to pay back loans. I want equity. I don't have to give dividends. I have a cash flow problem. I have a profit problem first, and I have to correct that before we can worry about paying dividends to stockholders. I would gladly take any plan, even at the risk of some dilution, to get some more equity into this company, beyond those that we have looked at.

Mr. Greenwald points out that we earn $25,000 to $35,000 range of employees—that includes everybody down to grade 2, which are the secretaries and the clerks.

The CHAIRMAN. We can pursue that further. More than any other executive in Detroit, as I indicated in my opening remarks,

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you have led the anti-Washington campaign, and what you said has a lot of worth to it. I would support it and other members might support it more vigorously.

Talking about the frivilous restraints and so forth, isn't this kind of assistance exactly the way that Government gets deeply involved in regulating business? After all, if the Government is going to provide a guarantee to a failing firm and to Chrysler, the Government is going to provide for regulations and restraints to protect the taxpayer. The House, as I understand it, has pushed into their bill a provision to require you to sell certain kinds of sales and not others. I understand there is a provision where you can change management. There are other provisions. I would resist those if we go ahead with this. I don't think you should be burdened with that.

The decisions ought to be made in Detroit, not Washington. But I doubt very much if we can successfully resist that. The Government will be into your corporation when you come this way and ask for this kind of assistance. Doesn't this fly right in the face of what you have been preaching so eloquently for so long?

APPEARING WITH GREAT RELUCTANCE

Mr. IACOCCA. It sure does. I have been a free enterpriser all my life. I come here with great reluctance. I am between a rock and a hard place. I cannot save the company without some kind of guarantee from the Federal Government.

I am not going to preach to you. You gentlemen know this better than I do, that we had much precedent, but I have to say to you at $409 billion, Don't stop now, men. Go to $410 billion for Chrysler because it is the 10th biggest company and there are 2 million people involved there. I want to echo Senator Tower's comment. I get hit with this day and night by all of the business community: How can you have been a free enterpriser talking the intrusion of Federal Government and ask them to go down and intrude some more?

I have been coming down here 13 years. I have gone through five Secretaries of Transportation. I am becoming a little calloused about it. I have been consistent. I think I have argued intelligently, and I hope forcefully. I didn't win many. That excessive regulation was wrong. Where is free enterprise? I tell all my buddies that are heads of corporations today, where are they on deregulation of fuel and the Energy Department not having to allocate, letting the market do it? That is the real gut cause of our problem right now, not regulation, but the energy problem and its regulation.

Where were these same people when we got three bills, a 1967 safety bill, a good bill; a 1970 clean air bill, a good bill; a 1975 fuel conservation bill, a good bill. But we have gone far beyond it. And regulation has hurt us, and hurt us badly over that 13-year period.

So, there has been intrusion in our business. That is not my excuse for coming to you. My excuse for coming to you is simple. I am running out of money and I have to shut down if I don't get this backing. I think that the Congress has to decide the key question: What are the odds of getting your $1.5 billion if we take it all down, getting it back and getting it back with interest? We

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say we can make it. If we can't make it it would be a loss to the taxpayers.

We have a plan that says we can make it. I am not supremely confident but very confident we can make it. So I don't find, Mr. Chairman, any inconsistency that for 13 years I have said, I think we have gone too far. I can't understand this last 5 grams, but I have had my innings with Senator Muskie for a decade. I lost and I bow to him. That is the sense of the Congress and they say the American Government can afford that much clean air, so be it. That is finished. But now we have a new thing.

I don't blame regulation—I want to make this point clear—for all of Chrysler's problems. I am probably the only guy who can be objective. I've only been there 1 year. But I think half of all of Chrysler's problems were tough management mistakes, zigging when they should have been zagging, for lots of reasons.

I think that the other half is "regulation" in quotes, of some kind, but within that total regulation it is really the inpact of energy. If there had been no gas lines in March, I doubt seriously that I would be sitting here before you, because we crashed—we absolutely crashed. We, last March, only expected to lose $200 to $300 million for the year and now we are coming into $1 billion.

What happened? The roof caved in. That's why we're here. I hope I am responsive to you. Every day of my life, people are asking me, but how can you be a free enterpriser so long? I think free enterprise, laissez-faire free enterprise died a while back.

The CHAIRMAN. My time is up. I will yield to Senator Garn. But I just have to assert the fact that by coming here, if we go ahead with this it does mean more regulation, more restraint, more interference, more intrusion, more burden on the part of the Government on business.

Mr. IACOCCA. I have no alternative. I don't like it, especially when they have the right to can me, too. [Laughter.]

Senator GARN. Thank you, Mr. Chairman. I have stated several times, not only in these hearings but in other public statements, that I have severe reservations about this whole program. I will have to be convinced to vote for it. But I really believe the line of questioning has gotten rather away from the point of Chrysler's problems. And Mr. Iacocca's stock options are not a point to be basing the decision on whether the company is in trouble or not.

Now, certainly equity, as Senator Heinz brought up yesterday, is important. And if any stock can be sold it should be sold. I certainly would agree with the Chairman and Senator Heinz on that. But to make an issue of whether you would make money, or any insinuation that the 30,000 people would oppose equity sales on the basis of dilution, defies my logic, because otherwise you have a choice of a company going bankrupt and their stock being worthless.

It would seem to me logical that a dilution, even if that occurs—and maybe the stock wouldn't go to $20 if the company is successful, it only would go to $14—that is a heck of a better alternative. So dilution would be an advantage if that occurs. So, I would advise you, if the bankers can sell it, to sell equity.

But I don't think the individual stock options of employees of Chrysler are the issue here. There has got to be some incentive.

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The underlying issue is whether management, hourly workers, salaried employees have done enough, and are willing to continue to do more to try to save a company in which they have a great deal of interest, and certainly have a great deal at stake in.

So, I would like to put that issue to rest and get back to some of the facts of the company's condition and why loan guarantees may or may not be justified. Yesterday Secretary of the Treasury Miller described the results of the Treasury's analysis of Chrysler's financial condition. As a part of that presentation, he talked about the $3 billion cash necessary to keep Chrysler afloat, and he stated that $1 billion of Chrysler's projected capital expenditures of the total of $13.6 billion could be deleted.

I asked the question: where? He said it would not come in product, and I said, "Well, there were problems with plant efficiency, where would it come from?" I did not receive a satisfactory answer, where that $1 billion would be reduced. It rests on improvements that—achieving 4 percent—rests in heavy investments in new tooling, new manufacturing techniques, better quality and lower warranty costs. I would like to know—and he said that I should ask Chrysler. So I am asking Chrysler: Where will you take the $1 billion out and is it a point of diminishing returns, in that you hurt your efficiency improvements in plants or new product lines?

5-YEAR PLAN

Mr. IACOCCA. I will try to respond to it quickly here. Keep in mind we are going on 5 years. We have a boxcar number called $13.6 billion. Our plan is built on $13,622,000,000. To answer your first question, if you leave the product side out, we have a major expenditure of $4.41 billion, roughly $4 billion, to support manufacturing improvements, plant rehabilitation, and engineering and research support on the investment side. OSHA requirements in that period are $306 million, by the way. That comes up to $4 billion, and to try to pare that down you have a little flexibility on that but not a lot.

What you do is you postpone new machinery and then you have breakdowns and then quality is hurt, and productivity gets hurt. So that side, we might be able to prune, because we are guessing a little bit, going out to 85 in the area of 5 to 10 percent. That would only give you $300 or $400 million. We would like to hold that aside.

I really think that when you look at a 5-year plan like this, there are some hard decisions we have to make in the 1984-85 period, and with our long lead time they are impacted in 1982, because you have to be 2 years in advance in making these commitments.

The candidates, and it would affect some products—let me take on that is on our book for $567 million. That is to get into the V-6 engine business for some of our family cars. We may have to forego that. Now, whether we can do it and package the car with a conventional six, for example, flies in the teeth of these CAFFE laws, which are so rigid. It says in 1984 you must get 26 miles a gallon. If we drop that V-6 we may only do 25.5 and then we get fined, heavy, if we miss it by even a hair.

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But that is a candidate. I can't tell you today that I am going to do that, but I have tried to ask myself the same question. We will affect product. The biggest single one I can look at all in 5 minutes is—just stay out of the little pickup truck business, that the Japanese are putting in here. Well, I probably would drop that, but I am concerned because there are new fuel economy laws that are going to be put out on trucks and I may not be able to make the yet-to-be-published fuel economy on trucks unless I do that. But that costs $750 million. Our market is only about 150,000 of them, whereas GM and Ford have a higher volume. Based on 500,000 of them, I would like to forego that. I may not be able to but I would answer you by saying I would probably have to drop that program.

If I would sacrifice part of that $4 billion—Chrysler has done this many times in the past history—you get in trouble later on. You are postponing the inevitable, so we can't do that. We have to get our productivity up, put in our labor-saving devices, et cetera, and keep the plant as modern as we can, or we don't get quality out of these products.

So those are about the areas, Senator, I would have to go attack.

Senator GARN. I hope it isn't just a tool to try to convince us we should approve the loan guarantees, that you are going to save $1 billion. My point is, from my experience as a small businessman, not dealing in those amounts of money, I know that undercapitalization can be the cause of failure. Maybe some of those might be necessary to do and not trim back, in order to improve your profitability by spending that money. That is why I was particularly interested in where did we get $1 billion. It is a nice round number. Did somebody pull it off the top of their head and say, "We will save $1 billion, put in part of the Treasury's plan, it sounds good"? That is why I wanted to pursue that. And make sure it is not just a number off the top of somebody's head.

Mr. IACOCCA. We have a commitment to the Treasury Department that by December 15th we will spend a little bit more time on this whole product plan in the 1984-85 period. I don't want to confuse these hearings. That is a very, very complex and difficult subject, which I am sure we will talk about a little this morning. And that is our third body shell, our so-called 5- and 6-passenger family car. That is a $2 billion shot on this list I am looking at. It is a front wheel drive program because we know GM is going to have one, and we want to compete. And the only way we can do that, probably, is going that configuration in order to get the fuel economy.

I need the flexibility to stay with the rear wheel drive. I think there is a way of doing it. I would probably save half a billion dollars there. I don't say these things to confuse anybody, but I want you to keep in mind this is a dynamic business. We do change our forward plans every year. Since Iran we changed our New Yorker, which was going to be all new for the front-wheel drive in 1984. In about 1982½ we are skimming it down and putting it on a smaller platform, because we can get better fuel economy.

We didn't have that in our program to meet the law, but we have to meet the market. We are not selling many of those at the moment, so we responded quickly.

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Senator GARN. You also mentioned in your statement better quality. I think that is a key, and maybe I shouldn't be so direct or so specific, but in my own opinion, I think one of the problems of Chrysler in the past, and the reason for loss of market share has been quality control.

COMPLAINTS OF CHRYSLER QUALITY CONTROL

I think you have had several good ideas, the Volare/Aspen. When you first came up with that I bought a Volare, the small station wagon, and the slant six engine, fantastic engine, probably ran 200,000 miles. I have seen a lot of them do that. It was a nice car, after we got it rebuilt, after the headliner was put back on, after we tightened all of the bolts and nuts, mechanically it was a fine automobile. But the quality control was unbelievably bad.

I went back to GM. I have heard a lot of complaints over the last few years of Chrysler quality control. What do you intend to do about that to attract more purchasers back to Chrysler? Because I don't think anybody has ever disputed your engineering, particularly in engines, transmissions, things of that nature.

Mr. IACOCCA. If we don't do that, we will go out of business anyway. Our quality has suffered the last three or four models. In the last 12 months we have kept an accurate plot of this. Our repairs per hundred—when we sell a car, we plot this on an annual basis—have dropped about 100. That is very meaningful when you are running at, say, a 400 and you drop to 300; then it says that the quality improved simplistically by 25 percent.

I think, more responsive to your question, this has been difficult, but I happen to believe in it. While I am cutting 8,500 people I am adding hundreds back into the quality-control area. I have to. We just need better discipline in our plants. It is not a matter just of equipment. There has been laxity in many areas. We have made a start, but it is a tedious job.

The total quality job, I think—I think, when you see our 1981 fuel-efficient cars, because so much is riding on those, you will see a superb quality with the same quality we have been able to put in the Omni/Horizon, which is built in Belvedere, building two kinds of cars. That quality is very close on our plots, as good as anything in the United States and close to the Volkswagen Rabbit, which is a fantastic car. And we have a partner in the Japanese Mitsubishi; we import their cars. So, we have good comparatives.

That competition is strong. We will match it and do it by 1981. That's all I can say.

Senator GARN. That is 10 months from now.

Mr. IACOCCA. Yes.

Senator GARN. My time has expired on this round. I would just comment regarding your battle to cut the imports to 15 percent, one of the reasons, as you know far better than I, that the foreign imports have been so successful is that they have generally had better quality control. And I think for Americans to get a better share back of the total market, it is incumbent upon all of the manufacturers in the United States to improve their quality control.

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Mr. IACOCCA. Fuel efficiency first, and quality right with it. I agree.

Senator GARN. Thank you.

The CHAIRMAN. Senator Cranston.

Senator CRANSTON. Thank you, Mr. Chairman.

I have been interested in your testimony. I am interested in the manifold problems that apply to Chrysler that it poses for our country, our economy, and us in Congress who have to deal with it, as well as the executive branch, and all the problems that you and labor, you and management and labor face. I would like to ask you a few questions that are sort of a general nature.

It has been suggested that a step along the following lines might be one appropriate move to make, apart from the specific matter of a loan guarantee. I would like to see what your reaction would be.

Would it be advisable for the big three auto companies to combine their efforts in the areas of safety equipment and pollution devices by setting up, as an example, a single effort to reduce the cost per car for each company, particularly for Chrysler, obviously, at the present time. As an example, a new corporation might be set up called something like "American Automobile Safety and Pollution Co.," jointly owned by the big three auto companies. All devices would be designed to universally fit automobiles of any brand.

Would such a move be helpful and practical?

Mr. IACOCCA. Senator Cranston, for the last 15 years we have discussed this, and I must say that just in the last 6 months the Justice Department has allowed us to go and make an arrangement with General Motors whereby they were doing work in specific areas—passive restraints. They have the only real technology in the industry. They have spent R. & D. money for years and especially in the new catalytic technology and the centers for the computers to run the cars clean. Those two areas.

So, we are contracting with them, and we have this joint effort. Now I believe that has been extended, that all of the four auto manufacturers can work together within constraints filed with the Justice Department.

Whether you can set up a corporation to do this—the fear in our system, and it is a valid one, is that maybe you will get the lowest common denominator. Maybe there won't be the incentive to wring the cost out of a catalyst or an air bag because the public has to pay for it. Whatever we put on a car, whether it is mandated or whether we do it on our own.

I have always been of the school of at least a decade that some of the more sophisticated new areas that were on the books, on the law books here, that we had to meet—clean air, socially responsible programs—that when we look at Japan and Europe and their pooling of this kind of information, I don't think we have done as well as we should have done.

I think we would be farther ahead and have better devices if we had on those very specific and narrow items, had some kind of an agreement to get together and do them together. It is anathema to our system, but I think so is the intrusion of the Government saying that we have to have clean air and we have to have it within 5 years' time. If it was an all-out war-type effort, we should

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have resorted to something like you suggested. I think it could work.

Senator CRANSTON. Do you have any estimate of what kinds of savings might be made, for example, to your company?

Mr. IACOCCA. We are talking mostly R. & D. effort. It is tough to put a price on it. I wouldn't want to venture a number. I think there might be considerable savings. I don't know what they might be.

Senator CRANSTON. It is an approach that is obviously quite different from the norm. Yet we are competing with companies and countries that do things very differently from the way we do, and compete with us with remarkable success. It seems to me we have to explore some brand-new ideas.

Senator RIEGLE. Would you yield briefly on that point?

Senator CRANSTON. Yes.

Senator RIEGLE. In part, we did that in a slightly different form when we provided a waiver, to American Motors so that they wouldn't have to spend to invent it but could buy the technology. As I recall, you sought the same waiver at that time, but it was turned down. And, of course, if it were given now, it doesn't help you because you have already spent the money.

Mr. IACOCCA. Looking in retrospect, 5 years ago, General Motors had most of the technology in the area because they had most of the R. & D. budget. And if we could have bought from them, it could have saved money in the long run, putting these devices on these cars.

Senator CRANSTON. We have heard a number of times in the course of this hearing and proceeding discussions of the success of American Motors and the fact that American Motors was given Federal aid. Currently, American Motors, as I understand it, will not manufacture any of their own automobiles. They are just producing for Renault. Renault supplies the tools and dies. But U.S. citizens get the jobs to manufacture most of the car and to assemble the entire automobile.

Assembly jobs are those that are most adaptable for the unskilled American youth, where we have a particularly difficult problem in employment. Therefore, it is something we should give thought to, I think.

JOINT VENTURE WITH FOREIGN MANUFACTURER

Why isn't it that a constructive move for Chrysler to use some of its underutilized capacity to manufacture and assemble cars for either Japanese, or German, or other foreign auto companies which could absorb some of the overhead and provide a contribution profit for the development of future strictly Chrysler profits?

Mr. IACOCCA. Are you suggesting that we might have a joint venture with a foreigner to assemble cars here?

Senator CRANSTON. Yes.

Mr. IACOCCA. We would very much like to do that. Of course, there is a law on the books under CAFFE regulation that when you do that, 75 percent must be local content. If you ship in a car completely it doesn't count in any of the fuel standards. That was invoked in 1979, so we can no longer count any imports.

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If you have a venture and you want to build a car here, you must have 75 percent local content or it doesn't count. That is why I am sure ——

Senator CRANSTON. What does that comprise, 75 percent local content?

Mr. IACOCCA. They can only ship in a box up to 25 percent of pieces made overseas, on the basis that 75 percent of the job which they—if the import comes in completely, you lose the total job. So, the regulations were written that way in the Fuel Economy Act. But I, for example, think American Motors has a nice association with Renault, and they will have one tough time getting to 75 percent and will probably be up here—I think you have had some request already—for a waiver. We probably—I don't want to tell you who we are exploring these kinds of things with—we would probably come for a similar waiver because we can't get up to 75 percent that quickly.

You are using their designs, and the reason you do that is you ship in the engine and transmission, basically, which costs so much money to make; you ship those in and do all of the unskilled interior trim and assembly labor here. I think that will be the wave of the future.

Senator CRANSTON. You are exploring that possibility?

Mr. IACOCCA. Very definitely. Very definitely.

Senator CRANSTON. On a related matter, do you feel the United States should restrict the number of foreign cars imported into the United States in order to protect American jobs, not to protect Chrysler but to protect American jobs?

Mr. IACOCCA. After 30 years, I have always felt that I am a free enterpriser, and I believe in free trade. But I want it to be fair, and I go through cycles where I don't think it is too darned fair. With the oil crisis in Iran, the imports went from 17 in one swoop to 25, and they have held it.

That is a lot of market. That is 2 million cars, and here we are in a recession and they are holding their 2 million. And everybody says that that is because they have the right cars. Well, that is true. Since the end of World War II they have always built cars for $1 a gallon gas and they all have little cars. They are on a little island, and even the people are smaller and the cars are smaller. [Laughter.]

So, they have catered to not just a minimarket, but a small market, because, very seriously, not because of their needs. So, I don't think you can just come out and say there is a certain magic number. I think these forces are coming into play right now in the Congress with our union, in my own mind. How high is up and how quick?

We have 110,000 people on layoff. There is an ironic twist. Under the Import Adjustment Act last week, about $75 million was given in 28 of 30 Chrysler plants to people who have been injured by the imports. It gets pretty ironic. You start chasing your tail.

I think that there, over time in a market this size, as an entrepreneur, I have always felt that 15 percent is enough. That is my number. The Japanese obviously don't agree with it. The Government at the end of the last oil embargo when we had that last spasm, with Mr. Nixon and Mr. Connally, they put on the Nixon

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shock in Japan. They said, "We will surcharge all of the cars 10 percent, moving too quick."

So, I think I am against an outright tariff because there is no stopping it. I think they should open up their market. I think they should come here with investment. I think they should put some of those jobs here—if not a whole job, half a job. And I think that is a policy that has to be reviewed very carefully.

But I would be inclined to say you can't continue to export your unemployment problems to our country over a long period of years without getting into deep, deep trouble. And history reads that very well.

Senator CRANSTON. How can we persuade the foreign manufacturers to put more of the jobs in this country?

Mr. IACOCCA. You have to talk to them and persuade them. The government probably has certain powers of persuasion in sitting down first. There have been attempts in many industries at voluntary quotas. There are trigger price mechanisms in steel. There are all kinds of things you can do. I don't want to get out of my field here. I hope that we can keep some freedom of trade between countries on some reasonable basis.

I think we need to take a high value, high labor content, high job business, like 18 percent of the GNP is auto and auto-related, and you have a 30-percent drop for whatever reason—that is what it has dropped since January due to oil crises, due to imports going up, high-interest rates now. We can cope with it as a country. I can't cope with it as a manager.

I don't know what to do. The drop is too severe, and I keep laying people off. It is amazing how you can plot every month of this year, our layoffs going hand in hand with our decrease and the import increase. But that is another problem.

The American public wants energy. They are concerned about gas lines and high prices. I can't say that to the 30,000 I laid off in the last 6 months. They don't want to listen to me. The guy who is laid off, he doesn't go for my rationale much.

Senator CRANSTON. Thank you very much.

The CHAIRMAN. Senator Tower.

COST OF INSTALLING AIR BAGS

Senator TOWER. Mr. Iacocca, what will it cost Chrysler to put air bags in all of its cars?

Mr. IACOCCA. Well, we have a great dispute with the Department of Transportation on the numbers. We think the—first of all, we are having GM do some of our work, but our out-of-pocket investment costs would be in the $50–$100 million area to get ready for the 1982–83 program for investment. The cost to the consumer would be anywhere between $400 and $600.

We think DOT has information that is pretty much in line with those numbers, yet they have insisted over the past that it could be done for about $100, maybe $125. We have a basic disagreement on the cost. Forget whether they are good or not, but it would be a very costly device that I don't think we need. We've got to get people to buckle up. We have good systems in there, if you use them.

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Senator TOWER. Once the air bags have been popped out, how much would it cost to reinstall them?

Mr. IACOCCA. I have watched so many of these I get scared when I see them pop when we test them. It blows up the inside of the car; the instrument panel goes. There is a mess. That is why the repair of those cars after triggering would be severe, and that would add to insurance premiums. It would probably be in the $600 to $700 area to put a car back together after the explosion takes place.

Senator TOWER. In fact, a lot of management decisions in the automobile industry have been dictated by Government or by the necessity to comply with Government regulations. Are a lot of those management decisions that are made necessary by the regulatory agencies decisions that would be considered bad management decisions if they were made absent the legal requirement that they be made?

Mr. IACOCCA. I missed the thrust of your question.

Senator TOWER. What I am saying is a lot of management decisions are mandated by the necessity to comply with Government regulations. Are those decisions generally, for the most part, decisions that would be considered bad management decisions absent the regulatory requirements?

Mr. IACOCCA. To an extent. The Chrysler mistakes—there were many—had nothing to do with regulation. There were many of those. But if you are asking—there have to be decisions made under a timetable, design something, crash it into production when you know you are going to have a lot of warranty problems with it, we wouldn't make those kinds of decisions willfully, due to the constraint of time on the mandate, it says by a certain day, usually September 1, our new models come out, when the model year starts, you must have those 12,000 parts come together and meet that law.

Under those kinds of time constraints, there are many things over the past couple—past 10 years—that have been done that I would question were sound management. But there wasn't much of a choice: We either met it, or we were in violation of the law and were fined or had to stop building cars.

Senator TOWER. Do you think that the benefits that have resulted from these various requirements have been worth the cost? Do you think that consumers generally regard them as worth the cost?

Mr. IACOCCA. Let's start with the easy one, first. I think there would be a riot if we mandated air bags, and yet it is on the books at the moment. It reminds me of when you had to retrieve that interlock—remember, you couldn't start your car?

Senator TOWER. Yes.

Mr. IACOCCA. I must say that I supported the thing, and I feel bad about it. And when I found out when I got my mail from all of our customers that they did have a bag of groceries, they had to belt a bag of groceries because of the weight before they could move the car, then I knew we went too far. Those are easy ones.

The bumper laws was a great lobbying effort, and I think there is general agreement in the whole world today that saying the bumpers had anything to do with safety was wrong. We added

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about $100, $110 a car. We added weight. We got nothing back. Those are the easy ones.

There is no question on clean air. I learned it from Senator Muskie and Dr. Schmitt about the mid-1960's. We were throwing a lot of pollutants into the air, and within 3 or 4 years we had 60 percent of the job done. It took another 3 or 4 years to get 80-percent clean. But now we are at the 90 level, and we are going for 95.

As a businessman, as a decisionmaker, it bothers me to put that last $238 in for something you can't measure. So, I think the quarrel has to come: When is good regulation a little too much, but when is it excessive and when will the public rebel?

I think in 1981 it will test our patience, because I think that every manufacturer for the black box to get the NO_x and the hydrocarbon and carbon monoxide control, he is going to see close to, probably for regulation, a $500 bill. But that was a law.

Now, I realize that the customer today hasn't rebelled. He rebels in a different way. He says, "Why do I have a catalyst on my car?" The reason he says that is because he is going to the pump and they are out of unleaded fuel, which is short often. So, he can only get leaded fuel, so he puts it in and contaminates the catalyst, wipes out $150. That forces EPA to send out squads to see who is doing this, and they are doing it. And their estimate is that 15 percent of the people are violating the catalyst requirement and adverting the cause of clean air.

But there is a new problem in town, and it is called energy. If a guy is waiting in line, it doesn't stop him. He gets a little funnel and puts it in. Doing it are 15 out of 100.

In 1973, I said the oil industry is not ready for us. What happens if you are short?

Right now we are short on diesel fuel. By not price controlling that and controlling gas, we have diesel fuel at a nickel over gasoline today. So these kinds of things are, I think, the worrisome ones that the public looks at and figures out at some point, "You have passed my tolerance level."

It was an interlock. I can predict it on air bags. There is going to be a scream, and yet it is going full speed ahead, held up, I think, by Mr. Dingell and others at least temporarily in the expenditure of R. & D. money. But a lot of people say, "I have thought from day one that we should have devices for pollution on our cars."

That is absolutely wrong. We made a quantum leap the first 3 or 4 years, and we had a lot of learning to do. I think it may be time to stop a little and pause and find out where we are headed and find out how much is on—a classic case is somebody said, "Wouldn't it be great to put sidebeams in the doors?" It would make the cars very heavy. I don't think there is any fact that that was effective at all in cutting down on fatalities or injuries.

It is tough to talk cost effectiveness when you are dealing with life. I realize that, but sometimes you have to make a value judgment that I think that is going too far.

I think that for the last 3 or 4 years we have been in that general area, Senator.

Senator TOWER. If Congress approves the loan guarantees, what would be the effect in imposing conditions relating to the products

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that you sell, such as specifying the kinds of cars or having you make mass transit vehicles, that sort of thing?

Mr. IACOCCA. If they ask us in this to build a mass transit vehicle—everybody is getting out of it. As was said when they got out of it, they said it is conducive to not making money. It is that kind of a business. Most of it has gone overseas, but there is no market for it. If there were, we would get into it.

Others say, "How about transit buses?" Well, GM is sort of getting out of it, and AMC got out of it because the market is 3,000 a year. It is tough to do it and make any money with it.

As far as making fuel-efficient cars, we have already taken that drink. We are headlong trying to get there as soon as possible. The market is insisting we have them sooner than later. I think our product program is very responsive to that.

If the Government said, "Well, we want you to build a certain car, a three wheeler or something, I would hope that they wouldn't get into our business in that product and marketing area. That would be difficult.

If they do, as Chairman Proxmire pointed out, it would be tough. This is a complex business, and the competition is Japanese and GM, and they are tough under the best conditions. You get enough people and consultants helping out on this and you go nuts. [Laughter.]

I have had a little experience on that in the last couple of months. [Laughter.]

Senator TOWER. Yesterday, Senator Proxmire inserted in the hearing record an analysis by DOT which apparently concludes that there is no disproportionate burden on the smaller automobile manufacturers from regulations involving emission control, safety, fuel economy, et cetera. I don't know whether or not you have seen this report.

I would appreciate any comments you might have regarding their conclusions.

Mr. IACOCCA. Which report?

Senator TOWER. One that he entered in the record yesterday. If you have not seen it, I would appreciate it if you would supply your comments for the record.

[The DOT report can be found in Part I, p. 348.]

Mr. IACOCCA. I will do that, but anybody who says that these mandated items don't fall disproportionately on the smaller producer doesn't go through the mathematical exercises we have to go through.

When I was at Ford, I complained that GM was twice as big as us, and I did for years, and I wrote a paper called "The Survival of the Richest" because as we mandate items and they divide by 5 million, at Ford it was 2½ million, at Chrysler we can only divide by 1 million. The fixed costs go up.

If we only—let's take $100 million air bag. The fixed load, if we had $1 million, is $100 a car. Now, true, you can amortize it over the years, but just to make the example 100, GM is going to divide by 5 million. It is $20 there. The difference between $20 and $100 on an annual basis is $80. They have an advantage of $80. They have had that advantage, and I have been competing with them all my life on other items, but when it gets mandated, over time if

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there are enough of these, they get an increasing margin relative to us and will drive us to the wall.

That is why you have got to worry under continuing things of this nature, if GM might not end up in 10 years as the only auto company. That wasn't the intent of the law, but it is really rewarding size rather than efficiency by mandate.

That's wrong. That is contrary to our principles. We shouldn't be doing that.

Senator TOWER. Thank you.

The CHAIRMAN. Senator Stevenson?

Senator STEVENSON. I have no questions now, but if time permits, I would be grateful if I could be recognized after Mr. Iacocca's testimony for a statement in the nature of a rebuttal.

The CHAIRMAN. I am sure there is no problem with that.

Senator Heinz?

Senator HEINZ. Thank you, Mr. Chairman. Let me express my gratitude to you for having done such a good job asking all of my questions. I am sure you did it even better than I could have done. I thought you ought to be commended for recognizing a very fine line of questioning when you see it. [Laughter.]

The CHAIRMAN. I was very surprised. [Laughter.]

No, no, no. It is typical of your abilities.

Senator HEINZ. Amazingly enough, you did not ask all the questions, so I would like to return to that particular line of questioning which you were kind enough to attribute to yours truly.

TRADING COMMON STOCK SHARES

I am—I want to be sure, Mr. Iacocca, that I understand what you are saying. Are you opposed to the Treasury or the Congress mandating, after you get the $1.5 billion loan guarantee, that there be a substantial issue of stock within a reasonable period of time? Yes or no?

Mr. IACOCCA. Of common stock?

Senator HEINZ. Yes.

Mr. IACOCCA. I have no hang up with it.

Senator HEINZ. So the answer is that you are not opposed?

Mr. IACOCCA. I am not opposed if it can be done in the marketplace.

Senator HEINZ. Do you think it can be done in the marketplace after you get the $1.5 billion loan guarantee?

Mr. IACOCCA. No. I agree with Secretary Miller's testimony—100 percent impossible. I would ask the investment bankers tomorrow whether it is possible.

Senator HEINZ. You are absolutely right. We should ask investment bankers. But since they are not here——

Mr. IACOCCA. All right, Senator. Fair.

Senator HEINZ. Let's talk to a man who is reputed to be a very intelligent and a very wise financial aide—you and your vice president of finance.

Now you are saying there would be no market for that stock. Right? Do you know how many shares of Chrysler stock have traded this year?

Mr. IACOCCA. No. I couldn't answer that.

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Mr. GREENWALL. I don't know the answer.

Senator HEINZ. About 50,000 shares a day seem to trade.

Mr. IACOCCA. That is the general ballpark.

Senator HEINZ. That means this year, 1 million shares based on 200 a year will have traded—1 million shares, excuse me—10 million shares. I'm not very good at math.

That is with Chrysler Corp. being in a terrible financial shape. For every transaction there is a buyer and a seller, so there are a lot of buyers right now over the course of this year for Chrysler stock without even having $1.5 billion of Federal aid.

Now what you are saying is, you can't sell any stock in spite of the fact that a lot of stock trades all the time. I don't find that—I don't find your answer credible.

But let me put it to you this way. Let me ask a different question. First, I need to know with respect to your October 17 submission to the U.S. Government, how you view that submission. Did you consider that a good, prudent exercise in projecting and making conservative assumptions, realistic assumptions, about what you could achieve with $1.5 billion in Federal help?

Mr. IACOCCA. Yes, sir.

Senator HEINZ. That is the October 17 submission, and you say those are sound? Those are conservative, properly prudent? And you stand by them?

Mr. IACOCCA. Yes. We stand by them.

Senator HEINZ. And you are saying you'd need more money to survive and turn the company around so you can make come true all of the things in the October 17 plan?

Now as I understand that plan, you are saying that with Federal help you can increase your market share to 12 percent. Is that right?

Mr. IACOCCA. By 1985.

Senator HEINZ. By 1985. As I understand that plan——

Senator SARBANES. Could I interrupt? It would be helpful if you could draw that microphone toward you, sort of close to you. We don't pick up your answers all the time.

Mr. IACOCCA. Thank you.

Senator HEINZ. As I understand that same plan, you would be making $393 million in calendar 1981, which is $6 a share. You would be making $516 million in 1982, which is $8 a share. You would be making $610 million in calendar 1983, which is $10 a share more or less. Is that not correct according to your conservative plan?

Mr. IACOCCA. Yes. That is the plan.

Senator HEINZ. And you say that you will make those earning targets come true with Federal financial aid totaling $1.5 billion in loan guarantees.

My question is this. I am sorry it took so long to get to it, but I am sure you will understand the necessity.

Were there subsequent to the passage of legislation and signing into law of the $1.5 billion, a stock offering which could only make the Chrysler Corp. financially still more secure because the proceeds come directly into your equity base, which you would like to have obviously, it seems to me to say that nobody would buy 50 or a 100 million shares of stock, would be a repudiation of everything

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in your October 17 plan and that the market would be making a judgment that the $1.5 billion and everything that has been submitted by you, by the Treasury, really is totally wishful thinking.

How do you respond to that?

Mr. IACOCCA. On the last line? Totally wishful thinking?

Senator HEINZ. How do you respond to the fact that what you are saying is that the market wouldn't buy any significant amount of Chrysler stock under those circumstances? And if that is true, isn't that a repudiation of your assertion that you can do any of the things that you say you can do?

Mr. IACOCCA. If your basic question is that we wouldn't be here if the private markets could take an equity offering of any kind, either common or preferred, we have in our plan—you see, we have to match this guarantee, the Treasury position, with $1½ billion, and in that is $200 million of equity. But we have been told there is no market for it. It can't be sold publicly. We would happily try it. That money we will try to raise among our dealers and suppliers, those with a vested interest.

Senator HEINZ. Just so everybody in the room is clear on this, I am not asking whether you could sell it today before the passage of legislation. I am asking whether you think you can sell it after you get the legislation, after you have $1.5 billion, after what you have said is your financial plan, conservative financial plan.

Mr. IACOCCA. If your question is, once we come off the mat of losing $1 billion and make the $390 million in the 1981 plan, the investor market out there—most of the car market will beat a path to our door. We will be able to sell some stock at whatever they value that company at at that point in time. We would happily do it.

Senator HEINZ. If someone said to you, Mr. Iacocca, I have a great investment opportunity for you. I can guarantee you, because a very brilliant chief executive officer has given me this information on the QT, the Secretary of the Treasury swears up and down he is right, and the Congress has given both of those the Good Housekeeping Seal of Approval, and this stock will be making $6 a share in calendar 1981 and you can buy it now for $6.87, knowing that there is a thing called a price-earnings ratio, you would immediately say, "My gosh, it might sell for more than $6.87."

Mr. IACOCCA. We hope it will.

Senator HEINZ. Would you buy that stock if somebody gave you such a tip?

Mr. IACOCCA. Well, that is a difficult question, the way you pose it.

Senator HEINZ. It sure is, isn't it? If you don't answer honestly and candidly——

Mr. IACOCCA. We are not able to sell it today. The going price today on the market is $7 a share.

Senator HEINZ. That's right, and we haven't passed any loan guarantees. What do you think the price of Chrysler stock will be the day we pass this legislation?

Mr. IACOCCA. I can't speculate.

Senator HEINZ. Would you say that it would be substantially above $7?

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Mr. IACOCCA. I am not that much of a market follower. If it goes up a $1 or $2, I would be amazed. I would be really amazed.

Senator HEINZ. I bet you would be pleased?

Mr. IACOCCA. Oh, I would be pleased. Yes, sir.

Senator HEINZ. You don't think that Chrysler stock would go up more than a $1 or $2?

Mr. IACOCCA. I am just speculating with you. I don't know. I have nothing to base that on. You tell me what the Dow Jones is, if it is 1,000, it could go to 10, 11, 12. I don't know what it would be like.

Senator HEINZ. If all stocks were tied to the Dow Jones average, we wouldn't need the stock.

Mr. IACOCCA. It's tied to the economy. In Chrysler's case, it is tied to one simple thing. If we make money, the disciples will follow and invest in the company and buy our cars. If we don't make money—and that is what this whole plan should be based on: What are the prospects of making what is in that plan?

I will guarantee you we will go out after any equity market we can, starting right today because we are doing it right now on a preferred issue, but it has to be done privately. Publicly, there has been no market for it.

Two years ago when we weren't losing $1 billion, we had difficulty in selling $250 million of preferred. We had to give those investors some warrants on the future of the company. It was difficult to sell at that time.

Now because of the talk of bankruptcy, our huge losses, our loan problems, there is not a market for—I'm sorry to say, even our cars are dropping while we are talking about this.

Senator HEINZ. My time has expired. I guess if there is no market, why are these people—45,000 shares traded yesterday—why are these people being so foolish as to pay $7 for your stock? What is the matter?

Mr. IACOCCA. Are you suggesting, if we had 65 million shares out at $7, I can put 65 million out at $7, dilute all the stock of the 30 percent of employees who own it, as a ploy?

Senator HEINZ. No.

Mr. IACOCCA. What is your question?

Senator HEINZ. My question is, first of all we know that every security has its price. I am certainly not suggesting that somebody try to underwrite a doubling of the number of shares of stock at $7. I would imagine they would have to do it at $3.50, which I think would get a lot of money for you, $3 or $4 million of equity money which you very dearly need. And it would insure that you would make all of your targets, because you would have additional financial resources.

Mr. IACOCCA. Who would invest in the company for the future, who just diluted and said we would sell the stock for $1? Then, we'd go get well and go back on the equity market. Would they respond to that kind of decisionmaking? Whether we had congressional help or not, would they really respond to that, Senator?

Senator HEINZ. Yes.

Mr. IACOCCA. You would want to lend money to them later on?

Senator HEINZ. Yes.

Mr. IACOCCA. I would sit down with you and investment bankers and hash this out. I would like to see us raise equity money.

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Senator HEINZ. I am told I have gone too far over my time. It is my fault, not yours. Thank you very much. I wish I had more time.

The CHAIRMAN. Senator Riegle.

Senator RIEGLE. Thank you, Mr. Chairman.

I don't know whether Senator Stevenson could be persuaded to use his time, because I would be delighted if we could get into at least the beginnings of a serious discussion about the world market situation and how Chrylser fits into it. I know he has said he would prefer to come at the end, but I think that that issue that we got into yesterday, is a fundamental part of this question of Chrysler. We have to finally decide Chrysler on Chrysler's merits, on its impact on the country.

It seems to me it is so profoundly a part of a much more serious and involved problem that it is at least worthy of some discussion. I don't know if Senator Stevenson wants to really wait until the end or not. And I do have some things I want to discuss.

Senator STEVENSON. Mr. Chairman, I just didn't want to intrude on our witness or other members. But if it is your wish for me to proceed, it won't take more than my allotted time.

The CHAIRMAN. Fine. Run the time on Senator Stevenson rather than Senator Riegle. Then Senator Riegle will be recognized.

Senator STEVENSON. Mr. Chairman, although much of American history has been a process of refining the bounds of Government involvement in the private sector, we still cling to the quaint notion that the two are, or should be separable. Most nations have learned that debating the distinction between the private and public sector is less productive than debating the optimal combination.

GOVERNMENT'S RESPONSIBILITY TO ACT

In the face of immiment collapse of the Nation's 10th largest corporation, the prospect of over 100,000 unemployed, the loss of $3 billion in Federal revenues, and the $10 billion decline in GNP, it seems unquestionable that the Government has a responsibility to act.

What is highly questionable, however, is that it should act by subsidizing a noncompetitive company and excess capacity for the production of automobiles. The proposed fix for Chrysler unites all of the worst facets of Government meddling in industry's fortunes. It is a short sighted reaction to economic necessities with political expediencies. It is thin on constructive ideas; it leaves critical questions about the long-term future of hundreds of thousands of workers in the auto industry unarticulated and unanswered. It makes abundantly clear that the intention is to forestall a Chrysler collapse until 1981, instead of facilitating the long-term process of adjustment that could promote economic growth, expand employment, and increase real wages.

Alternative forms of Government involvement offer economic efficiency and social welfare. The bailout approach we are presented assumes the two are incompatible, but they are not. This plan is presented as though the only alternative were Chrysler bankruptcy. We hear no debate about the alternative uses of $1½ billion or $3 billion.

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The proposed Government guarantees guarantee nothing. Chrysler's management is overly optimistic in its market projections and production efficiency expectations. Two months ago it requested $750 million, while analysts uniformly agreed that close to four times as much would be required. The Treasury Department's outline of crucial assumptions underlying Chrysler's rebound predicts fully restored demand for Chrysler's products and omits any mention of the gas shortages or the volatile market for cars.

Private bankers, strong advocates of the Lockheed financing agreement in 1971, are cool to the Chrysler plan. The unions are loathe to accept its medicine. Despite the prospect of a sinking company, the UAW won a new contract providing 33 percent wage increases over the next 3 years. What the union terms "significant concessions" will defer about $200 million until 1982. A contract more befitting a firm teetering on bankruptcy—say, a wage freeze—could save $750 million to $1 billion, according to estimates.

Chrysler suppliers and dealers could also grant concessions enabling the firm to ease through the cash squeeze of the next 2 years. But the path of least resistance is to demand that the public accept the risk and cover the costs which those with a more direct stake in Chrysler's fate have declined.

An alternative adjustment policy would have industry adapt to change, not resist it, and benefit the public. It would let the market and bankruptcy procedures parcel out the pieces of noncompetitive companies and then aid the competitive survivors, if necessary. That way requires some fortitude for the long haul, and our politics is geared to the next election and the short haul. Our business is increasingly geared to next month's profit-and-loss statement.

At stake here is whether we will go the British route and mortgage prosperity to the expediency of the present. And far more is at stake than the fate of one company. The macroeconomic effects of a Chrysler bankruptcy would be manageable if not negligible. But there is no question that the impact on businesses, on workers in Detroit, would be severe, and the short-term conservative estimates suggest 100,000 employees would be left jobless in the wake of a Chrysler collapse. The majority of these would be in the Detroit metropolitan area.

This region is already high in unemployment—8 percent. That could swell to 13 percent. Much attention has been given to the fact that these figures include a high proportion of black, undereducated workers not likely to be absorbed by other firms or other industries. The Federal Government does have a responsibility to these workers and to the city of Detroit, but the bailout proposal before us is not an exercise of that responsibility.

If we could say with any degree of certainty that Chrysler has a viable future in the auto industry, as we could with Lockheed, perhaps the loan guarantees could be justified. All of the indications are that by accepting this plan the Federal Government is accepting an unexamined obligation of undetermined duration to maintain a giant albatross.

A real exercise of government responsibility to workers would be to provide extensive retraining and relocation costs, and to locate

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new jobs. If Chrysler were to be reorganized under bankruptcy, a number of its pieces—such as plants producing subcompacts in Belvedere, Ill., transmissions in Kokomo, Ind., and components in Syracuse, N.Y.—could clearly find buyers. GM, Ford, and AMC could expand production, recall thousands of workers they now have on temporary or indefinite layoff and supply many of the 1.2 million cars Chrysler hopes to sell. A relatively small proportion of this demand would turn to foreign producers, and then only temporarily.

Because of slack in their own labor forces and differences in plant locations, the other firms would pick up relatively few of the workers left unemployed by a Chrylser shutdown. As many as 30,000 production workers in the Detroit area could be unemployed and unemployable unless they are relocated and retrained. Another 30,000–50,000 employees in industries which supply Chrysler could expect an extended period of unemployment.

If the Federal Government has a responsibility in cases like Chrysler, it is to these workers. Yet the absence of any Government mechanism for positive adjustment assistance in such cases combines with the political pressure to dictate loan guarantees which simply profit the existing structure, no matter how futile and wasteful and cruel to the human beneficiaries that it is professed to benefit. With Chrysler, the "fallacy of misplaced concreteness" focuses on the jobs saved temporarily, rather than on the durable jobs and enterprises we are not creating because of resources wasted in subsidizing the old industry.

The cost of the Chrysler bailout, even if successful, would be substantial. But it would be spread through the population in the form of higher prices, higher taxes, and a reduced supply of capital and managerial skill. No vocal segment of the population would perceive itself to be affected unfairly. The toll over time of less investment, lower productivity, and more inflation will be borne by every segment of the population.

At issue is not whether the Government acts, but how to act intelligently. The British have made support for geriatric industrial sectors a national habit, and, led by the labor unions, have dragged their economy into a spiral of decline. The Japanese have met it no less extensively, but have achieved dramatically different outcomes. Everyone is familiar with the decades of direct subsidies and import protection the Japanese offered its steel, chemical, automobile, and electronics industries. Less noted are their quiet steps to wean labor and capital away from declining industries and into the future. I believe we should go the way of the Japanese, not the British, but by means of our own American making.

If Congress takes the easy way out, the course set could be irreversible. Once committed to the extent of $1.5 billion, we will continue with more money to protect the old, just as banks do to protect their loans in less-developed countries. Congress will be too weak to accept the consequences of its mistake, and it will have established a precedent. Having bailed out one, it will be more difficult to refuse more. There will be more—many more—companies if the U.S. resists change instead of adapting to it.

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URGE COMMITTEE TO OPPOSE BAILOUT

So, I urge the committee to oppose this bailout. It is not an either-or proposition. The committee should help redefine the relationship between government and industry. And in a rapidly changing, competitive world, this is an opportunity to do so and point the United States toward the future and effective competition with the institution of nations that recognize little distinction between government and industry. The Congress could aid the process by which the physical assets and personnel of Chrysler and other failing industries are reorganized and enlisted in new enterprises that can take off where the old failed, develop and produce efficient products for which there will be a market.

Finally, Mr. Chairman, I expect to have an alternative to that end for the committee to consider in these deliberations. The choices before the committee are not limited to supporting or opposing a bailout. I thank you, and I thank especially Senator Riegle for time and patience.

The CHAIRMAN. Thank you, Senator Stevenson, for your most interesting and constructive suggestions.

Senator RIEGLE. Let me try to respond to some of the points that I think have now been put on the table. And let me start by saying I have enormous regard personally and professionally for Senator Stevenson, who raises a number of issues here. With all due respect, I think the bottom line is a serious misdiagnosis of the problem. I will be interested in seeing the proposal that is offered.

But having examined this situation very carefully, I think the only practical course of action that is open to us at this time—and I am talking about getting something in place in time—is the course of action that we are considering here; namely, the loan-guarantee route.

I think in the end members of this committee may very well look at it and decide that it is justified. They may not like it in every respect. I may not like it in every respect. But we may well decide to do it because it is in the national interest to do so. Others may come out the other door. They may decide that it is not in the national interest to do so and be willing to pay whatever very substantial premium costs go with the decision on that side.

But I hope that we will not deceive ourselves into thinking that there is some third course that—we can take and revise practices in this country and put in place a perfect new scheme for handling these massive industrial transitions that are taking place. To do that within a matter of weeks, which is what is required here, and as important as it is for this country, is completely unrealitic.

Very frankly, it cannot be done, and I am frank to say that I wish it could be because that is what is needed. There are other problems besides Chrysler to consider. We have talked before about the case of American Motors, which we have helped time and time again. As a matter of fact we are about to help AMC again because they are up against another legal barrier due to Government regulation this year. This would force them out of production, as a matter of fact, at several of their major facilities unless they get a new bit of Government help.

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So, we have any number of cases that we can look at to indicate to us that this is not a situation that is confined to one company or one industry, but, in fact, is in fact more and more endemic to the entire society.

I could not agree more that we need a kind of an industrial strategy, a national industrial strategy, that goes far beyond this particular case. But that doesn't mean we can walk away from this case and walk away from the damage that is going to be done to this country if we fail to respond at this time.

Our country today is in desperately serious trouble, and anybody who doesn't understand that isn't paying attention. You can see it economically, you can see it with respect to energy policies, you can see it in public faith in Government, you can see it in tremendous pressures all across our free enterprise system. And we now have a classic case in Chrysler that is here today in desperate condition and in need of help if it is to survive.

And many of the most recent shocks that have come just in the matter of the last few months were, as has been said, unanticipated by anyone. I don't think anybody wants to be here considering this issue at this time under these circumstances. I am convinced that Lee Iacocca doesn't want to be here, and I can assure you that I would prefer not to be here with this kind of a problem at our doorstep. But it is a national problem, and therefore there is a national responsibility to respond to it. We cannot respond to it by talking about some dream for a future plan that would take us literally years to construct and to get into place and pretend that it has any relevant meaning to this case.

We have a situation where our country today is faced with the prospect of an increase in unemployment of up to 600,000 additional people. They are people, they are not numbers. They are persons of all races and ages and in all circumstances. And they are not just, I might say, in the Detroit area. They are scattered all over the United States. Most of them are in Detroit, but every State in the Union will suffer from it.

If Chrysler fails at this point, it is going to cost this Government billions of dollars. We may want to see that money spent in that form because we don't want to touch the problem because it doesn't fit into a perfect matrix a of national recovery program that we might like to see. I wish we had such a policy.

We are faced with the prospect of an imminent collapse of the tenth largest company in the United States. That is not anything that—it is not anything anyone can change with respect to actions that were taken in the past that have led up to it. I think Mr. Iacocca has been absolutely frank in saying that he attributes as much as half of the Chrysler problem to internal management mistakes in the past. I think that is an enormously forthright comment to make. But that really has no bearing on the question of what kind of a response is appropriate at this time.

There are some basic strategic gains to be had if Chrysler is to be helped and is allowed to survive and get back on a strong footing. And let me just name them.

First, there is the foreign competition issue. Yes, the foreigners are now providing 25 percent of the car sales in the United States, and the share is rising. Our balance-of-payments deficit, which is

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hurting the value of the dollar and increasing inflationary pressures in the United States, last year was $7 billion, in the automobiles and parts item alone.

The jobs lost to foreign competitions are valuable jobs. I would prefer to see these jobs kept in the United States and whatever State they might be in, rather than export them to Japan and Germany. And I assure my colleagues that the people across the country who are standing now in line seeking work would much prefer to see the jobs retained in the United States than in some foreign country. They are not just assembly line jobs.

And we should also recognize that the jobs in the research and development side, which I don't want to give away to foreign competition, may be even more critical to our strategic future.

NEED DOMESTIC COMPETITION

We need domestic competition. I don't want an auto industry of only two firms. We need at least three, and we have a fourth that we have helped, American Motors, but that never gets talked about in this committee except by myself and one or two others, and certainly not by the Chairman. Perhaps most important, this country needs to produce fuel efficient cars, and it needs them immediately. Chrysler is in a position to put fuel-efficient cars on the road in this country in 10 months. They are modernizing and retooling their facilities, and they are half done at this point.

One of the basic strategic questions is: Do we finish these facilities? Do we put ourselves in a position as a Nation—forget the name Chrysler—put ourselves in a position as a Nation to be able to produce 1 million vehicles that can get us the kind of fuel economy and the saving of oil that this country desperately needs. We can be theoretical and say we don't want to do that, this violates this principle or that principle, and so forth. If we walk away from this problem, the United States is going to pay dearly for it. People are going to pay, the Federal Government is going to pay, and it is going to do enormous economic damage.

I am heartsick about this situation. The last thing I want to do is find us in a position where we are in an emergency situation and the only kind of a response at this late hour is the kind of an answer that we are talking about.

I have heard the witness say today that he comes with the greatest reluctance. He doesn't want to be here. He has managed this company now for 1 year. There is a new team in place at Chrysler. I am happy and I appreciate the fact that that group that is in place is struggling to try to save this company, because I think the country needs to have that done.

And all the people, all the fine schemes that are willing to come on after the fact and pick through the rubble and the wreckage if Chrysler fails, with grand designs for how they are going to take care of this worker, and how we are going to take care of this plant—those folks are going to have to stand at the door of the bankruptcy court. The claims on this company are such at this stage of the game—we have had the No. 1 bankruptcy expert in the United States, who has been handling bankruptcies for the last

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20 years before this committee—tell us that Chrysler bankruptcy would be in the courts, probably, for the next 5 years.

And so, yes, we can all stand around; we can debate; we can talk about grand theories and grand formulas. It doesn't mean a thing. It is not a practical response.

I think the United States today is hoping—most of the people don't understand this problem because it is very complex, and we haven't got deeply enough into it yet in terms of even the prior hearings that we had—but I think what most people want in this country today is they want us to make sound and sensible answers. They want us to quit wasting money. They want us to invest money in things that are going to help people and help the United States. This happens to be one case, just as was true, I might say, with any number of the host of other things where we provided loan guarantees of the United States.

I mentioned the steel industry yesterday. We talked about American Motors today. Lockheed has been cited. And we can go right across the list to the airplane manufacturers to shipbuilding. That is the issue here. Now, we can inflict an enormous load on this country if we want to do so today, by backing away from this problem and washing our hands of it, and saying, sorry, we don't want to touch it.

I would hope that this country is still capable of stepping up to an emergency and responding, and not letting this accident happen and having wreckage strewn all over the place, 600,000 people standing in unemployment lines. That makes no sense at all. It makes absolutely no sense at all, and yesterday—I will just conclude with this—we had a very interesting esoteric discussion. Unfortunately the room was not as full as it was today. It was quite empty.

The Chairman and I, were talking about the question of how one decides on the basis of philosophy who deserves help and who doesn't. And is there some test, based on size, the small company gets it, the large company doesn't get it or vice versa, or is there some test with respect to State boundaries? If a problem happens to be in one State, if the plants are in one State, does that mean that we apply one rule for helping and yet if the same problem arises next door in another State, suddenly we change the philosophy. We argued if that is justified people ought to read that record of yesterday because to me it is the essence of the kind of hypocrisy that we go through around here, where we have altogether different arguments that we apply to fundamentally the same kinds of cases.

This country is in trouble. We can add to the trouble by doing nothing on Chrysler. We have a route to go here. We have a sound management team in place. We have a plan that looks like it can work, that has a high prospect of success. It has been looked at by outside experts. The Carter administration, represented by the Secretary of the Treasury has looked at it in the most conservative sort of way and says, yes, it makes sense, it ought to be done.

We have a long list of gains for the country and potential loss if we fail to do it, and I hope in the end we won't go off chasing rainbows, but instead, buckle down and do something that is necessary to help people and help the United States.

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The CHAIRMAN. Senator Kassebaum.

Senator KASSEBAUM. I would just like to commend you, Mr. Iacocca, for accepting the challenge of rescuing Chrysler. I am sure there are times when you wish you were back at Ford. I think you make an excellent presentation. I would question, one, your economic assumptions. I would hope they would prove to be true, but I think perhaps they might be on the bright side.

I couldn't agree with you more that energy is the gut issue. I only wish that the automobile industry had followed the vision of people who spoke 10 years ago to the fact that we were going to face an energy problem in this country, and led the way in causing the consumer, perhaps, to be more cognizant of the problems we would face. I really don't share Senator Riegle's impassioned plea that this is a situation that will affect the entire country. I question what Chrysler has done, itself, to a certain extent to solve its own problem.

It is always easy to point the fingers of blame. I would start with the fact that I applaud the decision of the executives to cut their own salaries, and perhaps this should have been done even sooner. But I would like to ask why all employees shouldn't share the burden of difficulties at Chrysler. There has been a 33-percent new contract negotiation which Mr. Kahn said was inflationary. American taxpayers are being asked to help save Chrysler, which is in large part helping save jobs.

I would like to ask why you feel all employees shouldn't be asked to share in this situation.

EMPLOYEES SHOULDN'T SHARE DIFFICULTIES

Mr. IACOCCA. I think it is a matter of degree. I don't think we missed anybody on suffering. It is how much suffering can we ask for. There is a lot of question that at the moment, that with Mr. Kahn, the union hasn't suffered enough. I asked for twice what they gave me, but in the collective bargaining process I didn't have much leverage. I asked for a 2-year outright delay that I estimated would save $400 million. Doug Fraser came out with $203 million. I did the best I could. I got half a loaf, which is better, but why can't we get more?

I would like to have gotten more. We have asked everybody, our suppliers, 19,000 of them, we told them the runaway inflation, $150 million, they have eaten it. I don't know how long they can go with runaway inflation in this country. So they have contributed.

We have a long list here. I don't want to bore you with it. Everybody suffers together on this. As a last resort, we need a safety net of $1.5 billion to make it, and $1.5 we are asking for, as someone here said, is to get 1 million front-wheel-drive cars. If you pull the plug on me in 2 months, I've got to write off $1 billion. I have to write off and not bring those last 700,000 front wheel-drive-cars to this country.

Senator KASSEBAUM. You are assuming the public is going to be able to buy that many more cars.

Mr. IACOCCA. We will take from the imports. Japanese imports sell today. They have the right car at the right time. They spent the last 30 years catering to $2 gas, and you know, we forget this. I

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spent my whole life designing cars, up through 1972, that would run on 35-cent-a-gallon gas, and then there came an oil embargo at OPEC. It took us 6 years to get to 67. Then it goes to $1.05 and they say, respond quicker than you did. I can't do that. That is why I am here.

I cannot, short of—I am being asked as a company and an industry to change every product I build within a 60-month period. At $160 million a month, I just ran out of the ability to do it. This Congress has to decide whether, as Mr. Riegle pointed out, whether it is worth taking the chance of bringing this on.

These flip statements that "well, it will all get absorbed," it will get absorbed. I can guarantee you, that 50 percent will be absorbed by the Japanese and the Germans. It won't be absorbed by General Motors or Ford.

Senator KASSEBAUM. That is probably true. Going back to my statement, it's just unfortunate that 10 years ago we didn't have that vision.

Mr. IACOCCA. I agree. I wish I had had more vision. Somebody, by the way—the lead time, they figure the K car that will come through in 1981 was planned in 1977, before Iranian crises. It just takes so long to get them out.

Senator KASSEBAUM. That was a recent crisis.

Mr. IACOCCA. The big three, if they had known there were going to be gas lines, and we all assumed, all big three assumed that the price of gas in 1985 would be $1 a gallon—we moved it up 6 years. I can't help that. I don't know what caused it. My job is to repond as quickly as I know how, and it is going to take me a couple of years to do it.

Senator KASSEBAUM. And it isn't beneficial to helping solve this immediate problem, but my point is that I am really questioning the resolve of Chrysler over the last several years to meet a problem which was obviously coming. And you mentioned in your testimony that Chrysler received no offers to merge with any company, domestic or foreign. I would like to ask you if you have taken initiatives to go out and seek mergers, or what other alternatives, perhaps, have you taken the initiative to——

Mr. IACOCCA. I can't give you the names. I have asked everybody. I have had discussions at the highest level. I am hopeful that one day, hopefully we would get some assurance from the Government that they'd backstop us during this critical year or two, and I could go to a foreigner, obviously. I doubt that—it would be a dim view for GM or Ford to merge.

I think over, even, at the Justice Department—but I have not left any stone unturned, in not just outright merger but short of that there are many other collaborations that I think in the next 5 or 10 years are going to take place in the world, anyway. To put in a power train and engine, a 4-cylinder engine, to get the fuel economy, 400,000 is $400 million. Everybody is doing his own plan. At 200,000 it is very inefficient. We will have joint ventures in this country and around the world in automatic transmissions, straight transmissions—power packs, they call them—and the engines.

I think you will see some activity in that area in the next few years, Senator.

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Senator KASSEBAUM. Perhaps this is putting you on the spot, but when you took over a year ago, did you at the time feel that the Government's guaranteed loan would be the only initiative that could save Chrysler? Did you hope to find something else?

Mr. IACOCCA. Listen. Through August 31, I felt deep in my heart I might even be able to muddle through. But the third quarter changed my mind. The fact that the markets didn't come back, new or used car, the fact that our dealers started to go bankrupt, the fact that brokers put the last pressure on it—if Mr. Volcker—I agree that there is no other choice, I guess he said we will make people stop buying houses and cars, and it is working. I've got news for you, it is really working. And the combination of all of those circumstances, I just plumb did like a lot of people do. I ran out of money to continue those forward programs to build my fuel-efficient vehicles.

I can't quarrel that maybe we should have done it 5 years ago, but we are in the midst of it now. We would like enough patience and money to carry it through for the next critical 12 to 18 months. You see, in our business, in 1981 I am on the record now as the only guy in the world that—he is going to make $395 million. If I don't make it, if my assumptions are wrong, in this kind of business, you don't have to loan me the money, don't worry. I am sure Treasury will say, hold it, you failed. Lesson No. 1.

Therefore, we are pulling back $300 million or we are doing something different, or we are going to suggest bankruptcy, or we are going to liquidate you at 20 cents on the dollar. There are lots of choices out there. I am just asking this group and other groups to consider not just the unemployment—I will guarantee it won't be absorbed in our inner city—in fact, I will give you one. Nobody ever thinks of it. We have 5,000 dealers in your States. They are independent businessmen. I had 200 go bankrupt in the last 60 days. I have a lot more at stake than just our own company. There are lots of little individuals involved, meaning the little supplier and the dealer.

Now, let's say we go into bankruptcy. Or let's say Chrysler isn't needed. Do you tell me what we do with those dealers? Ford and GM have too many dealers. They can't absorb them. So out of the 5,000 dealers there will be a hardy group of good ones of 2,000 and you know who will pick them up—the imports. Now, the imports have what they really are missing here, and that is real first-class distribution systems, and we hand it to them on a silver platter.

Nobody has talked about this yet. The dealers come to see me and talk about it, especially those who are in danger of going under, and they say one thing. Most of them are sticking by us. They say, "Can't you move up the fuel-efficient K car?"

I say, "I wish I could, but you had better hold your breath until September 15th of 1980 and then the sun is going to come out."

And I have got to try and give him money now to keep him from going bankrupt. And where do I get it? I am a little short myself at the moment. So don't try to simplify this. The 10th biggest company. There are 2 million families involved, the UAW, 27 percent of them black, but there are 19,000 little suppliers and 5,000 dealers and there are 250,000 of their employees.

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All I am saying to you, a tough problem, tough dilemma for me and you. I don't know how to handle it. I can't go bankrupt. I can't liquidate—I can, but if I want to try and save—I can see it now, I see this as a 30-year person. It is worth taking a college try. I can be a businessman. It is simple: you pay now or you pay later. I didn't cause the whole problem. Oh, I am part of it now, but either we get $1 billion or in 12 months you have $2.7 billion to take care of these people. You won't train them fast enough. It is in welfare payments, supplemental unemployment benefits to match our State dollar for dollar. The Feds are going to do that. You say, fine, on a businesslike approach maybe we would rather settle.

The purists in the Nation keep writing me, saying it is better to go for $2.7 billion than one. I say, you are a businessman, but it is a theory of free enterprise. I say I gave that up 10 years ago. Look at EDA. I don't like the steel business getting $1 billion, because—why did they give it to them? Only $500 million so far. They said because they have been hurt by imports and their environmental costs are so high. Imagine that. And you lose jobs.

They are in the minor leagues compared to us, if you are talking jobs or what we must spend to clean up our act in cars, not just our smokestacks, our cars. So we are unique. I want to make sure this committee understands that. There is only one thing, Mr. Chairman that you asked, that—how should we handle little versus big companies. I say any company in the United States that, with things beyond its control, has to double its fixed investment within a 5-year period, over the last 5 years, should qualify for your help, or the whole country is going to blow up. Nobody qualifies under that rule alone.

You are spending $5 billion, then spend $10 billion. Why? You have to. The fuel efficiency law doesn't do it. The energy problem itself insists that you do it. And we are saying we can't meet the marketplace that fast, and people come back and say, that is your problem, you should have planned and gotten organized; that fuel efficient cars at $1.05 gas and the probability of continuing OPEC problems—you know that better.

Who caused it? Was it OPEC? Was it the Federal Department of Energy, with its 20,000 people now? Who was it?

There is something wrong somewhere when the industry that prided itself—and I did—we have never come to the Government for a cotton picking thing. Remember that, no trigger prices, no import quotas. We have—in the marketplace, we have engineered cars and sold them for 30 years, made a lot of money and employed a lot of people.

Maybe this is the tip of the iceberg. I don't know. I think we are first because we are the weakest link in the chain. Ford may not be too far behind. But that is a national problem.

In the sensitivity analyses, they say, well, what if the industry dropped to 9 million a year? General Motors would have a specific name U.S. Motors; they would be the only one left. [Laughter.]

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FOREIGN IMPORTS WILL BENEFIT

Mr. IACOCCA. The imports—but I defy you to give me how the imports will not benefit and benefit for the next 3 years, 2 to 3 years, if Chrysler goes under.

There is a waiting list for GM cars. Ford isn't in front wheel; that is why they are suffering. We don't have enough, 300,000.

Is there overtime in Japan? All right. They are meeting the beautiful U.S. market.

Senator KASSEBAUM. There has been a waiting list for several years, unfortunately, for those foreign cars, for the foreign imports.

Mr. IACOCCA. Let me give you an example of how volatile the market is. I used it last night when I talked to a few of your people. But in January of this year I had to spend $11 million in 1 month to move my Japanese cars that got 35 miles per gallon—think of that—before the Iranian crisis. I had to spend $11 million.

Two months later, there was a black market on those cars. Volkswagen Rabbit diesels were taking a $1,000 black market premium.

Keep in mind, right today I have got 6,000 of those little cars in Canada across the border. Because of Federal rules, I can't bring them over. I can't give them away. Why? Canada has no gas lines. Their gas—forget the value of the dollar difference—is 85 cents a gallon. They don't know what we are talking about here. They don't want those little cars.

So my point is, now everybody wants them. You say, well, what are you doing? I am getting ready to come up with 1 million, and if you look at our plan, 1982 we have another half million. Pretty soon we got a whole line of 1½ million to 2 million cars, all front-wheel-drive, and we average 27½ miles per gallon—not because the law said it, but because the marketplace moved ahead of Brock Adams front loading the standards.

When Congress said get the 27½, and he says, how would you like to get to 24 by 1982. It is precise, but the market is demanding 25 to 30. One more gas line and they want 35.

I have got to be out 3 years. I am doing the best I can. That is the way I end up.

And saying we got tough competition—but this country—you tell me the assumptions. This is the speech I wanted to make today. You tell me the assumption in that plan. I will handle the product and I will guarantee a return. But the Congress has got to tell me.

How about the interest rates? The Chrysler plan says 13 percent for 1980, 11 for 1981 and 1982, and 10 for 1983. We had better do something or it may go the other way. I am knocked out of the box if the interest rates go to 18 or 20, and they could.

Inflation? Our UAW contract, it has an assumption in it, 8 percent over the next 3 years, 9–8–7. Are you sure of that? Well, that's the way they negotiated it at General Motors, 9–8–7. Well, what if it isn't that? Then we have a problem. Prices will go up, volumes down, imports may go higher. Growth rates, I won't talk about them, they look so miserable. [Laughter.]

GNP, disposable income, gas price. I won't get caught again. Gas price, I assume we go to a $1.50. But now I am gunshy. I am told Chrysler's number is $2 for 1985 plan, the product program, on $2,

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and tell me $2 a gallon. Because I was off 50 cents the last 5 years, I figure it should go to a $1.50. But Kuwait and the group are meeting again. They can't wait until the end of the year. [Laughter.]

I don't know what it is going to. But my job isn't to commiserate with myself; it is to respond with those kinds of cars.

I think the American public will take a 25- to 30-mile car. If they want 40, it is out. They have to go to motorcycles or minicars.

The CHAIRMAN. Senator Sarbanes?

Senator SARBANES. Thank you, Mr. Chairman.

Mr. Iacocca, in the course of his statement, Senator Riegle said that you had been very forthright and candid in attributing more than half of Chrysler's current problems to past management. I was interested in that comment of his, because I read through your statement. I was not here to hear it, unfortunately, because I had a conflicting responsibility.

And perhaps you interpolated in the course of making your statement. But the written statement is a diatribe against regulation. And as I read it, it doesn't identify any cause or factor for Chrysler's difficulties other than government regulations.

Now, I would be interested in to know whether you added that comment? And I would be interested in hearing you discuss this responsibility of past management for the current situation at Chrysler.

Mr. IACOCCA. Well, it is difficult for me to say, if I had been there, this is what I would have done. That is so easy, as you know, in life, and I don't operate that way.

Senator SARBANES. I take it you made an oral statement to that effect; is that correct?

Mr. IACOCCA. Yes. Under some question, I said, if I had to give you a number today, I would say half of the problem was prior management mistakes, like being in the used car business, a lot of terrible mistakes.

Senator SARBANES. That is not in your written statement. That is an accurate reading of your written statement, is it not?

Mr. IACOCCA. Yes. We did not get into details of all of the things past management did wrong. I didn't think it proper. I am telling you at the hearings that half, maybe you could say 70 percent. I don't know. I always stop the argument, I think, by saying, look, I accept half for all of the past problems.

They are correctible. I have corrected over half of them in 12 months. I will correct the rest in the next 12 months. Don't worry about that part of it, OK?

Now, there is another half to worry about. It is not a diatribe. Fuel economy, within the part that is left, is the biggest single problem——

Senator SARBANES. Let me just interrupt you. Are we doing 5 or 10 minutes here, Mr. Chairman?

The CHAIRMAN. Ten.

Senator SARBANES. I only get 10 minutes. And you have discussed at great length in your statement the effect of Government regulation and its cost to you. I understand from Senator Riegle's comment, which you now agree with, that you attribute 50 to 70 percent of Chrysler's difficulties to past management mistakes.

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Now, I don't need a recounting of the regulatory problems. You have given me those.

PAST MANAGEMENT MISTAKES

You didn't even mention the past management mistakes in this written statement which you submitted to the Committee, but you're now prepared to attribute 50 to 70 percent of your problem to them. I would like to hear about that 50 to 70 percent.

Mr. IACOCCA. I would be happy to give it to you. I wish we had put some in. We didn't. Maybe it was a mistake.

Past mistakes were: Trying to get too extensive overseas, getting into a lot of markets and not being able to keep efficient and new products in 50 markets. It is tough enough in the U.S. They paid a heavy price for that in the past, for those expansionist ideas, Senator.

But at home, I thought these had been in the press so much I hardly thought we needed to repeat them again. They had a procedure whereby they didn't build cars to dealer order. They put them in a bank and they aged. And money costs went up and they aged a long time, after the Iranian crisis. And this year I had to come up with $100 million of raw costs for just that. Nobody does it that way, but we did it that way.

We have a leasing company and we take back from Hertz, Avis, all of these people, the used cars. And that was OK, but after the Iranian crisis they dropped $2,000 a copy. And I had an $81 million problem on our hands. I did not assign that to the Iranian crisis, being in the used car business to start with. That is a dealer problem. So we got hooked for the $81 million.

There was a plant called Hamtramck. It got in the news quite a bit because there were a lot of jobs involved, trying to move half of the plant with the K-car. But it is a Dodge Bros. plant built 70 years ago. It was costing $100 million a year.

Those are three quick ones that come to mind of $300 million in a single year. Those we clean up, and that is why you see some quantum leaps in the profit improvements, because those you just stop doing. There are other mistakes, but those are minor compared to these big policy issues which were the wrong way to run a railroad.

Senator SARBANES. You took over at Chrysler when?

Mr. IACOCCA. A year ago last week. I moved on to this job, I believe, 60 days ago, 45 days ago.

Senator SARBANES. You detail on page 15 of your statement some projected fixed cost savings. You say, quote, "We have eliminated the dividend on common stock." When did Chrysler do that?

Mr. IACOCCA. July, I believe. I will have to check it.

Senator SARBANES. How many dividend payments on common stock were made since you took over as head of the company?

Mr. IACOCCA. How much?

Senator SARBANES. How many and how much in dividend payments on common stock?

Mr. IACOCCA. I will have to get you the number, because we cut it in half. We stopped payment in midyear. It probably averaged 30 cents a share before we stopped. It was 10 cents a quarter. It would

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be $65 million shares, about $20 million, before we stopped. I would say that is in the ballpark, about $6.5 million a quarter. So if it were three quarters, it would be $20 million paid out.

Senator SARBANES. What loss did Chrysler show in the first quarter of this year? Did you show a loss?

Mr. IACOCCA. Yes, $52 million, I believe, roughly.

Senator SARBANES. $52 million in the first quarter. And what was it in the second quarter?

Mr. IACOCCA. $213.

Senator SARBANES. And the third quarter was?

Mr. IACOCCA. $460.

Senator SARBANES. What was the figure, the profit or loss figure on the last quarter of last year?

Mr. IACOCCA. It was a profit of about $40 million.

Senator SARBANES. When do you make those quarterly dividend payments? When was the first one made in 1979?

Mr. IACOCCA. The first one in 1979, probably stockholders on record close to yearend, mid-January. I don't know the exact date. I could get it for you.

Senator SARBANES. The next one would be mid-April, I assume?

Mr. IACOCCA. Yes, roughly.

Senator SARBANES. That is when you stopped dividend payments, or did you make another one after mid-April?

Mr. IACOCCA. There was great debate on the April one, because things were looking like they were turning, on whether that dividend should be suspended. At the second meeting—at the following meeting, in approximately July, it was.

Senator SARBANES. You did not make a mid-July dividend payment?

Mr. IACOCCA. No.

Senator SARBANES. You have talked about reducing the salaries of the executives through a compensation deferral problem. Does that mean there has been a lasting reduction, or it is a deferral which will be—can be recouped later?

Mr. IACOCCA. When we get profitable. They defer, let's say, 10 percent of salaries for a year, and by 1981, because that is when we say we are profitable, they would get that 10 percent back in stock or the equivalent. That is why it is a deferral.

Senator SARBANES. How will that work?

Mr. IACOCCA. What do you mean, how will it work? If the guy has taken a $5,000 cut, there is a period in 1981——

Senator SARBANES. How many shares of stock will he get? What is the stock price figure that is used to determine the number of shares——

Mr. IACOCCA. The market price today. We suspended the salaries, saying don't leave us. We had a lot of people leaving us. Stay with us, things will get better, this will grow, even though it is a temporary cut in your take-home pay.

Again, the only weapon we have, a piece of paper called an option, says we are going to get well and you will earn some money out in that period of time.

Senator SARBANES. You have made the point earlier that it was a question of $1.5 billion now, which would preclude the $2.7 later, which if it is borne out is not a bad argument.

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What about those who contend that it is $1.5 billion now plus $2.7 later? What I really want to get from you is your projection of how Chrysler is going to be back on its feet. And we have heard from the Treasury. I read your written statement. I would just put two issues with you: Your increased market, which is talked about as a 1-percent increase in each of 4 years. And that doesn't sound like a lot, but that really adds up to a 40-percent increase in Chrysler sales in a 4-year period, 10-percent increase in each year. And how—so I put that to you.

Second, I would like you to return to the observations you were making at the end of your response to Senator Kassebaum about what might happen to the interest rates and the interest rates upon which you were basing your case and their effect on your carrying costs; the assumptions that were being made as to the inflation rate, with respect to your wage settlement: Projected developments with respect to the energy situation, and so forth.

I think it would be helpful, at least to me, if you would lay out before us how you are going to be back on your feet in the time period that is projected here.

CONFIDENT IN THE SHARE OF MARKET

Mr. IACOCCA. Well, I will try to summarize it quickly for you, Senator. I think the one that you should question the most, and I think it is the one I am most confident in, is the share of market. That depends on how well we execute our programs and how well we market them. There is no use in us quarreling all day about size of industry assumptions, or inflation, or tax rates, or interest rates, because I have no control over those.

We have made assumptions. They have been tested by outsiders. They have been tested by the Treasury and the Treasury's advisers, and they have all signed off on them. Chrysler's projection in the final plan, however, is at the low range of all of those projections.

Nobody, for example, projects $2 a gallon gas. Nobody projects the industry, car and truck, as low as we did. We went a shade lower to make sure it was a prudent plan.

So much depends on volume in this business. The industry volume I can't comment on. I expect this year to be a disaster. The 10.5 that was in the old plan is now obselete. We are taking it down to 9.3. That is the new adjustment—2 million imports and, believe it or not, about 7.3 domestic, which is a disaster for everybody. And that is why you will see continuing losses.

I don't expect the country will go to hell. It will come back one day, I hope.

But the share of whatever the market is at 10.2, going to 11.1, I tried to explain, is the nine-tenths of a point that we think the K-car in competition with imports would have had a field day. They have gone from 17 to 25 in a short period of time. We will get that back, and then in future years go from 11.1 to 11.6 to 11.9 to 12.1 to 12.4.

Well, I tried to explain that I think that is really so conservative. I think that is a part I can assure you I have a good chance of meeting. I say that with open eyes, knowing that the competition is

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rough. I have competed against GM for years and I have competed against the imports for years, and I think it is doable if we execute our programs properly.

We have a $2.1 billion plan. That is where we arrive at the $1.2 billion request for guarantee. The Treasury and their advisers felt that our variable margin improvement program could be in jeopardy at 15 to 19 percent on a $900 million base. It might be $200 million and said they need that for conservatism.

The biggest part is the volume number. The easiest way to give it to us is we have a 9.3 and then going back to a normal trend of 11 to 11.5 and the logical question, that was our sensitivity analysis—what if the industry is down a million every year?

That is easy. At 10 percent, that is 100,000 cars. That is $200 million a year. If you ran that for the period, 1980, 1981, 1982, and 1983, that is $600 million. So $600 million roughly on volume, assuming we do the share that I have talked about—$200 million on variable improvement.

They all agree that our fixed costs are real and manageable. So they got in the $800–900 million range. That is the contingency they expressed. They went from 1.2 to 1.5. They really went from our 2.1 to $3 billion we have to raise.

When I said the most they can do is $900 million, they said how would you like to try for $1.5 billion as a requirement. Well, I am going to try, but if I don't get $400 million from the banks, there isn't much time, because I won't make $1.5 billion, I can tell you right now.

That in essence, Senator—I don't know if I have been responsive, because I am trying to take pieces of the plan that would say that the odds of the penetration are pretty good. The industry, I am getting the shakes on a little bit really because if we don't have the energy problem solved, I don't know what is going to happen to the basic industry.

But I think they did an analysis. How about if it goes from 1 million off to 2 million off, and I said, "Forget it." I don't think GM has to worry because I think they are out of business, and I think maybe the country is in deep, deep trouble.

Let's not look at that base case. That is too low. But I think for a couple of years you could be off 1 million cars. People will—car prices are going up because of the runaway of commodity prices adding to it.

Now money is so tight, by the way, with these 15–16 percent rates, our greatest problem is, the dealer has got to get cash because there are usury laws in so many States that he can't get roughly more than 6-percent compounded which is 12 percent. The money costs more than that, and why would they loan it out?

So cars are shrinking because of that action which I hope will be temporary.

Some things are in my control. Those I will try to respond and tell you exactly how I will do it. The variable cost program, et cetera.

The assumptions beyond my control, I can just hope that we are prudent. They are the problems of the country. My problems are the problems of the country.

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If those interest rates don't come down and inflation keeps going up, rather than what we planned on its going down, we are going to get the $10,000 cars up to $12,000 or $13,000 in a hurry. Inflation has taken over.

Even regulation, you say, when you've got a $12,000 car, why are you complaining about putting $250 on to get that last 5 grams of air. I agree. Against $12,500, $250 is nothing. But we are off to the races. It is all getting that way. What's the difference—another couple of hundred here or there?

Those are my problems in the plan that I want to address. I don't know what the country is going to do to turn back this runaway commodity thing. I can understand plastics going up. They went up 35 percent because oil went up 35 percent, but zinc, aluminum, lead—up 30, 40, 50 percent? Is somebody playing futures like silver and gold? Why are they going up so fast?

But maybe OPEC told them something. I don't know what's going on, but I am getting bills, so the material costs seem to be in a runaway state.

I don't know what Mr. Carter is going to say about the contract costs, because we haven't ratified ours yet. I hope it is 7½ when they are all finished. That's their figures.

All I will say to this committee is, whatever they missed the guidelines by at GM, we are $203 million better.

The CHAIRMAN. Senator Lugar?

UNCONTROLLABLE ASSUMPTIONS

Senator LUGAR. Mr. Chairman, Mr. Iacocca, the problem I have, and I would like your assistance in trying to solve, comes down to these assumptions over which you don't have any control. I think that they are serious, and I suspect that much of the focus of our hearings really ought to be on the industry as a whole and what is going to occur with regard to the economy of the country. I think these aspects probably have much more relevance to whether a Chrysler Corp. or others are going to remain whole than any of the plans that have been suggested.

For example, in the current news—and this has already been a part of the hearing this morning, but let me repeat that the thought is that the current sales of automobiles in this country are 8.8 million cars. That is 2.2 million under projections. You have mentioned that selling 2 million cars less than the 11 million of the same period last year. Do you think you could make it at 10 million. At 9 million, you have suggested there might be only one company left.

Now a recent story in the Wall Street Journal supports that thought, with the internal memo of Ford showing projected North American loss of $8,040,000 in the current year—at Ford, not Chrysler. There is a very strong suggestion that the American people do not have a demand for automobiles right now.

It may be temporary, but on the other hand, it might not be. One thing that the American public is suffering is a large shift of money from this country to the OPEC nations in the form of a very large tax being taken out of our hides.

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Perhaps housing and automobiles are the first places where this shows up as people delay expenditures because they are buying energy as opposed to houses and automobiles.

I am not certain at all that you can make a projection that is going to be any more valid than any of the rest of us can. But it seems to me that the thought that interest rates would come down below the projections you have is not based upon any reasonable thoughts at the moment, given that defense expenditures are surely going to rise for strategic purposes as part of the SALT treaty and for mobile contingency factors as the result of other events occuring in the world. There will be substantial allocations of capital in that direction.

I think we are going to see a substantial allocation of capital into the energy front, whether it is synthetic fuels or the search for hard to get oil. That is capital that is going to be unavailable for automobiles and for houses and for other consumer items.

And clearly the pressures on interest rates are going to continue. The labor contract that you have signed is clearly going to be more expensive than you projected, or than Ford or GM had as they have tried to satisfy Mr. Kahn or anyone else. There is no doubt in my mind that they are way beyond the guidelines, and, given the escalation clause, high rates of interest and continuing inflation, the percentages will be much greater than projected today.

On that basis, one can say, before you even start with this plan, that there is no way to make it. And members of the committee, if they intend to come back in 3 months or 6 months and question you about why you failed, really ought to be put on notice now that there was no hope from the beginning.

The basic question, it seems to me, is, given this attrition in the automobile market, and you have offered at least one potential reason for still going on with the plan. A lot of automobiles are coming from abroad presently. They are not being produced here because if in fact we have only a capacity for 9 or 10 million cars in this country, maybe we have enough capacity with two firms, maybe with one.

This is what we really have to take a look at in a broad way. If we have need for more, it may be to meet the demands that are now being met by the foreign cars. Now in view of this, I suppose one problem that I have with the presentation this morning and which I would like your further thought on, pertains to your suggestion that by 1985 all of our cars will be small and fuel efficient. At the same time, you have projected a market demand of 20 percent for car buyers who will need a 6-passenger, family-sized automobile. And finally, most intriguing, you have projected the third point, that no American producer can remain profitable or become profitable by producing only a single line of small cars.

Your suggestion is that foreign producers that do this receive substantial government assistance in their own countries and really I suppose the same analogy of mass transit that you already gave today as a matter of national policy.

What I wonder is, is this good strategy? Is this a good mix? In other words, if the rationale for the plan is that Chrysler Corp. can meet the demands for small cars in this country now being shipped to us from abroad, given that there still is need for that additional

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capacity. You have suggested there is no way you can get there without producing some big cars, family-sized cars, and most automobile people have said the same thing.

What I am wondering is, how might the plan be modified in terms of product mix so that it meets at least what appears to be the demand you might be replacing over the course of time? Or if you make that shift, does that so alter all of your projections that you don't think you can make it at all?

Mr. IACOCCA. Well, I will try to answer your question. I have a chart, because this is a question we are asked all the time. What is a full line of cars?

I tried to respond to it in my testimony, but maybe this picture will clarify it. We took, on the left, our full line of cars at Chrysler for 1975, and at the top you will see the family-sized car, that average, that whole group of cars. Its weight was 4,800 pounds, and it averaged 12.7 miles to the gallon.

Now you have to remember that in our plan, that car when we finally get to 1984 is replaced by the car on the right, which now weighs 2,800 pounds—and there is a year missing in here, 1980, but I will tell you that it happened to be 3,800 pounds. The present New Yorker that replaced the 1975, the big car, so we have projected a front-wheel-drive, 2,800-pound car that will give the American people 26 miles to the gallon or a little over two times the 12.7.

Senator LUGAR. The family sized in 1985 is 2,800-pounds, which would be 600 less than the 1975 small size?

Mr. IACOCCA. Yes. But when you say full line, remember you have to define it by 6, 5, and 4-passenger cars. The people with six and seven kids that had one wagon, I don't know what they will do. We will get them a van of some type. But there are needs out there, and I have tried to identify the needs for that top market by anybody's projection. Nobody says it will drop under 20 because of the demographics of the situation.

Now there is another car which we call intermediate, which is essentially a 5-passenger car—a cramped rear seat, a smaller trunk, et cetera, usually 2 doors, while the one at the top is usually a 4 door sedan. That will get 27 miles to the gallon and be a 2,600-pound car.

And then comes what we say is the small size—would be the all around 2,300 pounds, and that is where we generate our real fuel economy, because today the small size which I have lumped in there—all of the compacts—compacts down, and Chrysler—it is Volare, Aspen down through Omni/Horizon. They average 18.1. To meet the 27.5 fuel standard, forget the marketplace just for the moment, we have to get enough of those at 30 miles a gallon to average out the larger cars. But the larger cars are smaller than the medium cars of today by a long shot. In fact, they are smaller than our present compact cars of today, 5 years from now.

Senator LUGAR. Why don't you get to the 1985 line sooner? What are the technical problems?

Mr. IACOCCA. Even with the million unit front-wheel drive products, we are making adjustments as fast as we can. We have the 3-year lead time. It is really a matter of getting the power trains. Power trains have to be built for efficiency reasons on heavily

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automated equipment, and our plant for 400,000 costs $400 million. There is a waiting list.

For example, our 1983 4-cylinders, we are going to add more. We don't have the design completed for that car, but we had to give the orders to the transfer equipment people to get in line. We need a reservation because all of the United States and most of the world is getting into new power trains because OPEC is making them get into new power trains. Even overseas they are seeing—by the way, overseas, Europe, only averages 24 miles per gallon by our best computation on our way of doing it. After 40 years of expensive gas, they average 24. We are going for 27½.

YEARLY MARKET FOR 9 MILLION CARS

Senator LUGAR. Answer this question quickly now before my time expires. If you knew that we were only going to have a 9 million car a year market, what would your advice be to this committee with regard to the commitment of Government resources to Chrysler. Please take yourself away from the advocacy position for just a minute and think in terms of public resources?

Would that be a rational decision on the part of a Senator on this committee or generally, if we found out that the automobile picture in the country was going to change, that we had only the capacity to absorb 9 million a year?

Mr. IACOCCA. Well, I don't know quite how to answer that because it is not going to happen. We are projecting now doomsday for next year because of the credit problem in 1980. There are 150 million cars out there. We are trying to sell 10 million a year today at the average of 20 miles a gallon. The poor people who have the used cars are getting 8 miles to the gallon. There is the built-in advantage. Get rid of the clunker. In fact there is talk in the Congress that that is what windfall profit taxes have to be used for, to get him through this barrier also. So there is a big built-in demand.

That is why I am bullish on 1981, 1982, and 1983. I don't think this will continue, because we would be having the guy hold on to his old car. The way to save millions of barrels of oil isn't to have the EPA twist us a little bit in getting 1 mile per gallon more. It is to get out 8 million extra cars each time as fast as you can that only get 8 miles to the gallon.

In fact, I made the comment, the average guy today who always buys a new car is paying 50 cents a gallon for his gas, because he goes and trades in a 10-mile-a-gallon car and he gets a 20-mile-a-gallon car, and his fuel bill is 50 cents a gallon based on the old way of looking at it.

To answer the broader question—but what if I am wrong and this country is doomed, and what if we are going to go to 9 or 8 million cars—I think that is such a broad problem, I would leave that up to the Congress of the United States to debate. I don't think I can bring much to that party.

I think we have one terrible, terrible employment problem when we are the biggest employer of the biggest three, the biggest taxpayer. We have the most value-added. We added jobs. Forget the balance of trade, it is the balance-of-job trade. They are buying

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soybeans in Japan, but there isn't that much labor, so you have a job problem. I don't think I can help you. I can't answer that. That would be tough.

The CHAIRMAN. The hour is late. You have already testified for 3 hours. I apologize for detaining you, but I don't have any alternative because I do have other questions. I am sure other members of the committee do, too.

I greatly admire not only your intelligence, but your remarkable stamina. You seem fresher than you were at the beginning. That doesn't apply to any of the rest of us. [Laughter.]

Mr. IACOCCA. Not on the inside.

The CHAIRMAN. Senator Tower earlier talked about the Transportation Department study of regulations. I would like to get into that because I would like you—you say you wouldn't have the figures, and in fact I would like to give them to you. It seems to me they seem to refute the notion that has been argued by Senator Riegle and others and you this morning, that Chrysler has suffered from regulations because it is a smaller company. They deny that that is the case.

It is a yearlong study. Here is what they say. And I'm going to read this because it goes right to the heart of it.

AUTOMOTIVE INDUSTRY NOT VICTIMIZED

The automotive industry has not been victimized by regulations. Already existing regulations account for only 7 to 8 percent of vehicle prices, and for roughly 10 percent of the $1,700 of the average increase in prices per car over the last 5 years. 10 percent or $170.

Prior regulations have not resulted in increases in capital spending, but do appear to have increased variable costs by a small amount. Neither sales nor profits have been deflected from their rising trends due to regulation. Since future regulation compliance costs are dominated by fuel economy-related expenditures, since these are also brought about by consumer demand or competitive pressures, it is not justifiable to single out these increases in capital expenditures as a result of regulations. In fact, the issue is still cloudy and quickly changing.

It is impossible to say which part of the increase, if any, is due to regulation. But regardless of the magnitude of the regulation-induced increase, the companies' own spending plans show that smaller firms are not disproportionately affected.

Then it goes on to point out that R. & D. expenditures as a percentage of net sales revenue which reflect in part the cost of meeting regulations, Chrysler in every single year since 1954 has either equal or lower expenditures, in all of the last 10 years has had lower expenditures in relation to net sales.

We are not talking about absolute, but in relationship. In other words, they have spent a smaller percentage than either General Motors or Ford.

And finally, the investments to meet regulations, which is the big part of it, the report says the smaller companies spent less per vehicle when compared to their larger competitors. Chrysler in particular invested only at the level of 60 to 70 percent per vehicle compared to General Motors. Therefore, it is not true that investment per vehicle was higher for the smaller companies. In fact, Chrysler experienced a larger decline in investments per vehicle

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from 1964-67 to 1968-76 than did Ford, and Ford's decline was larger than GM's in the last 2 years.

GM's per vehicle capital expenses increased 60 percent over the preregulation period. Ford's increased 50 percent. Chrysler experienced only a 32-percent increase. Hence, it seems the larger companies are experiencing a relatively greater burden.

This was the same conclusion reached in a recent report by Harbridge House, independent report.

Senator RIEGLE. Parliamentary inquiry.

The CHAIRMAN. I'm asking him to answer the question. I have the floor. The same rules apply here. You cannot take a Senator off the floor for a parliamentary inquiry unless he yields. I do not yield.

I ask Mr. Iacocca to answer the question.

Mr. IACOCCA. Are you saying from the study, which I would like to have——

The CHAIRMAN. Yes. It came out yesterday.

Mr. IACOCCA. I would like to see how they developed it. It is 180 degrees from anything I have developed.

Does that conclude that General Motors was hurt more by regulation than Ford and Chrysler, is that the bottom line?

The CHAIRMAN. They don't say they were hurt more.

Mr. IACOCCA. You say they benefited most.

The CHAIRMAN. They say they spent more in relationship to their sales.

Mr. IACOCCA. There are—they could spend their R. & D. monies—it is not fair. I have always said GMC does three, Ford does two, Chrysler can't make a mistake. They only do one. When they decide to do an advanced development program, they will try a turbocharger, they might even go to production with them, whereas the rest can afford to do what they can.

I don't think just the fact that they are a first-class company that has all of these resources to do the R. & D. work indicates much of anything as to how regulation over time impacted them.

But, Mr. Chairman, I would like to see those numbers, because I never heard them before in any way.

The CHAIRMAN. The report was issued yesterday by the Department of Transportation. Senator Tower had a copy, too, because he referred to it. At any rate, he referred to it. A copy is available.

I would appreciate it very much, Mr. Iacocca, for the committee, if you would respond over the next few days and give us your analysis of that report. It is a detailed report. It is a 100-page report. I have not had a chance to study it closely myself, but I wanted to bring it up now, because this is your appearance before the committee and it goes to the heart of what has been contended. And much of your argument has been that this has been an expense forced on you by Government regulations, which had a relatively more severe impact because you were smaller.

Mr. IACOCCA. I will respond as soon as I have a chance to read the report.

The CHAIRMAN. Mr. Iacocco——

Senator RIEGLE. Parliamentary inquiry.

The CHAIRMAN. You know the rules. I do not have to yield and I won't yield.

Mr. Iacocca, in your testimony you paint a grim picture of the automobile industry as a whole. And we are reminded this morn-

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ing how grim it is by the losses by both General Motors and Ford in their North American operations. Ford projects a loss next year of $1 billion, according to the report, in their North American operations, not overall.

Now, your October 17 plan assumes there will be no significant fuel shortage until at least 1984, and that Chrysler's market share will grow in the midst of a healthy automobile market. In light of your present testimony that you have just given us here, do you still believe that your sales, your market share, your market penetration figures, are realistic?

Mr. IACOCCA. Yes, I do.

The CHAIRMAN. Before you go on, let me ask this, because it relates to it. On October 18, you said that the Federal Government should provide a guarantee of $750 million. 28 days later you tell us it should be $1.5 billion.

You seem to have been 100-percent wrong then or you want 100-percent more now. Why the increase?

Mr. IACOCCA. My whole plan, my conviction, my ability to do this was based on $1.2 billion. At that point in time, the Secretary of the Treasury said, I will not sponsor any program unless it is pared back substantially to the 500-to-750 range.

The number finally became 750. I went back and said, I will do all possible to see how I can raise the difference between those two numbers. But we were always consistent that to have a plan that had a good chance of obtaining the plan, we would need $2.1 billion, of which we could only find $900 million and needed $1.2 billion guaranteed from the Government.

The CHAIRMAN. Less than 1 month ago, you seemed to be willing to go ahead with a $750 million plan from the Government, the $750 million guarantee, I should say.

The difference between 750 and your 1.2 is 450. The Government said, I think you could go out and find that 450 by selling off something else. We didn't feel that was a good plan, but they said, that is the only way we would even sponsor any part of a plan with you. They then changed their minds and took it up, not to $1.2 billion, but $1.5 billion, adding that it would appear with their analysis, with this credit crunch, the next 6 months would be so difficult the losses might be higher, and that was a factor of safety.

Your testimony this morning and the rapid changes in this industry suggest that maybe if you were testifying a month from now, you might have to ask for even more.

FUTURE UNPREDICTABLE

Mr. IACOCCA. You have to fix a point in time. I don't know what the future holds. I don't think anybody in the room does. This is our best estimate, Mr. Chairman, today. I don't know how deep it is going to get. I know the worst depression I ever went through was after the last oil embargo, and that year dropped down below the 8.5 level for the year. We are at 9.3 now. We only need another 10-percent shot to get us down to the worst shot we have had in the last two decades.

Is it in the cards? I don't know. I don't know what is going to happen on oil myself. I just don't know.

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I would deregulate gasoline quickly. That is my personal opinion. I think it would help the whole situation. But I know that is a big discussion in these halls and I will leave it to you gentlemen.

The CHAIRMAN. According to the Secretary of the Treasury's testimony and their consultants, they question many of the cost savings projected in your October 17 plan. They feel they are not likely to achieve all of those savings and you may have to develop contingency plans for additional cost reductions.

Yesterday the Secretary made an excellent presentation in which he showed that under many circumstances the $3 billion wouldn't be enough, you would need more than that, and went up to almost $4 billion under some circumstances, depending on how the costs developed, depending on your penetration figures, and so forth.

What sort of contingency plans have you developed to compensate for cost savings that fall short of projections and other adverse developments in the event that this doesn't work out as rosily as you would like?

Mr. IACOCCA. Our plan was based on 2.1, and now the Secretary has said, you come up with 1.5 and we will guarantee 1.5, and that would be $3 billion. The $900 million of contingency—I think at the $3 billion point we have every contingency I can foresee covered. Why do I say that? I believe in the market penetration. I believe in the variable cost improvement. I believe we can hold our fixed costs down.

There is only one area I am afraid of, what Senator Lugar said: What if it drops another million and keeps it up for a number of years? That is the only point at which their analysis says we really get in the soup.

The CHAIRMAN. What bothers me—and it bothers me very much, and I wish you would respond. I know my time is up, but what bothers me is that, as you showed me this morning before the meeting, your penetration has now dropped to less than 8 percent of the market. You project it will go to 12.4 in 1980—this assumes that General Motors, which has already got its front-wheel drive car in the field—Ford, which I can't believe is going to go to sleep on this, by 1985—before that, I would think they are going to have to come into the market big and heavily.

So why, under those circumstances, can we assume that you are going to somehow pick up 20 or 30 percent of the market you don't have at the present time with that tough competition?

Mr. IACOCCA. Until the last 12 months, 12 was our low point for the decade. This is not an ambitious market penetration program. Aren't we all going to commit to getting the imports back to where they belong? Are we going to give up?

We are going to fight them with fuel-efficient cars. We are going to keep people out of buying the Japanese-type car, because we are there with 1 million of our own small cars. Ford will join in, GM will join in. Because when we have the same car over here—as was pointed out, we need quality, we need fuel economy—we think we can get back some of the market.

Look how fast we lost it. Before the Iranian crisis, they were only doing 17. Before GM came out with their X-car, GM and Japan, those two—GM had the resources to bring out their X-car—after the Iranian crisis they went up from 60 to 70 percent of the

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market. Did you know that GM and Japan combined only did 60 percent of the market, and now they are doing 70?

You are saying, what if they go for 80. Well, I am going to try to stop them. We are going to take them back to 60, that's all I'm saying, we and Ford and the others who are suffering. That's the only way I can answer you.

The CHAIRMAN. Senator Heinz?

Senator HEINZ. Thank you, Mr. Chairman.

A couple of loose ends, Mr. Iacocca. You have been very patient, as the Chairman says. Congratulations on having survived everything so far.

I just want to return to one question, where we were talking about the conservatism of your financial projections, which has been questioned by others. But let's assume that they are wrong and you are right in your October 17 projections.

We were talking about your earnings per share in 1981, $6 a share. What do you imagine Chrysler stock would sell for at the end of 1981 when you announced that you earned $6 a share? What would you expect to be a fair price for Chrysler stock in 1981, assuming that your projections are right?

Mr. IACOCCA. Ford is running at three to one. They are a big, well-run company at three to one. I guess we could sell as high as $18 if the marketplace would treat us and see a bright future. They usually bet on futures, not 1 year.

But at that point in time, I don't know.

Senator HEINZ. If they are betting on futures, the next year is $8 a share. What will they bet?

Mr. IACOCCA. I have no way of projecting. Are you telling me to project the stock market year by year?

Senator HEINZ. No. I am asking you to project the multiple based on the earnings that you project. You would say 3 or 4 to 1, wouldn't you?

Mr. IACOCCA. I don't know. Over the years——

Senator HEINZ. If I were you, I wouldn't want to project it.

Mr. IACOCCA. Eight to one, ten to one in the old days.

Senator HEINZ. Give us a range. What is a low?

Mr. IACOCCA. I don't know.

Senator HEINZ. $6, $8, $10, in 1981, 1982, 1983?

Mr. IACOCCA. I wouldn't say how the stock market reacts.

Senator HEINZ. $18 at the end of 1981?

Mr. IACOCCA. The stock market——

Senator HEINZ. What are you talking about? Who's talking about the stock market? I am talking about your earnings and the price of your stock.

Mr. IACOCCA. I thought you went from earnings to stock.

Senator HEINZ. Yes.

Mr. IACOCCA. I won't comment on that. I can't. The earnings, they are in here at 395 and they go up to $900 million by the end of 1985.

SHAREHOLDERS NOT ASKED TO SACRIFICE

Senator HEINZ. Fine. Over the last 5 years, Chrysler Corp. has paid out to their shareholders $200 million, over $200 million in

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dividends. Yet, as I understand Chrysler's financial plan in terms of coming up with $1.5 billion, the non-Federal $1.5 billion, in spite of the fact you have given to your shareholders over $200 million—and that doesn't include any dividend distributions this year—you are not asking the shareholders to do anything.

You are not asking them to come up with any money, you are not asking them to make any sacrifices, you are not planning to dilute the stock.

Why is that?

Mr. IACOCCA. I cut their dividends. What would you ask me to do? I will go ask them. What can I do?

Senator HEINZ. You have already paid out $200 million.

Mr. IACOCCA. I can't get that back. If I had been there—I wish I could draw it back. But they won't come in and give me that money back. They have spent it.

Senator HEINZ. IBM didn't pay out any dividends for years.

Mr. IACOCCA. What do you want me to do?

Senator HEINZ. I would like to know—you are asking the taxpayers of the United States to come up with $1.5 billion. What are your shareholders going to come up with?

Mr. IACOCCA. What can I ask them for?

Senator HEINZ. What do you intend to ask them for? You have given away $200 million within the last 5 years——

Mr. IACOCCA. They may have bought that at $35, $40. They have paid the price. The company is failing, so it is down to $7.

Senator HEINZ. But the price, if you are right, will be around $18 a share in 2 years, and they will get a big windfall.

Mr. IACOCCA. If I am right they will stick with me and buy more stock.

Senator HEINZ. You are laying off employees. They are making a sacrifice. The ones that are being laid off are paying a very serious price.

Mr. IACOCCA. No question.

Senator HEINZ. Some of your creditors are paying a price, right? What are the shareholders being asked to do? The answer is nothing. They are just sitting there waiting for the price of the stock to go up.

Let me ask you this. Here is Chrysler. You employ 125,000 people, more or less. You are coming to ask us for $1.5 billion. There are all kinds of companies in Michigan, Pennsylvania, Wisconsin, and the other 50 States that fail every year. But when a company with 1,000 employees fails and gets no Federal help, what do you suggest we tell them, particularly if we haven't asked your shareholders to do anything?

Mr. IACOCCA. What you told them when they asked about the steel business in Pittsburgh on the EPA. I don't know.

Senator HEINZ. Do you know how many steel companies have gone out of business, Mr. Iacocca?

Mr. IACOCCA. Probably not as many as automobiles. A thousand went bankrupt. We are down to three and you are down to two and we could be down to one.

Senator HEINZ. That may be, but you are still not answering the question.

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What do you say to the small people in Illinois, in New York, in Georgia? What do you say to these little businessmen?

Mr. IACOCCA. If you are asking me for a guideline, if you are impacted the way we have been, the real single reason for our dilemma this year is to swing over $160 million a month.

This isn't a matter of law; this is a matter of saying because of OPEC and the like, we have got to get to fuel-efficient cars, or we are out of business because nobody will buy them because fuel prices are too high, that in a 5-year period, we have to double our full capital investment to change over our products.

You won't recognize one that you have now. You say, well, what would you say to an airline that has got regulations. Nobody says that they have to change over all of their jets to save fuel.

They may have to adopt them for noise levels. This industry is unique. This industry is made up of many pieces, size along. We have those 4,800.

Senator HEINZ. So I should tell the small foundry just outside of Philadelphia, sorry, your business isn't unique. Mr. Iacocca's is. Tell me what we say to the people in Pottsville, Pa., where 1,000 jobs is a lot of jobs and the foundry that supplies those jobs goes bankrupt, not because 50 to 70 percent of the management decisions were wrong, but because EPA put a heavier regulatory burden on them than they even did on you.

What do you suggest that I tell them?

Mr. IACOCCA. Do you think the gas lines impacted—it impacted the guy in Pottsville the way it impacted the Chrysler Co.?

Suppose it was the 30th biggest company. Do you think that in a short period of time, it is fair to say, let them go broke? It was beyond our control, but OPEC got them. Blame it on somebody else. It is not our problem.

I can argue with you all day long on precedent with the steel workers, $409 billion. I can argue with you that it is a good business decision. You tell the guy in Pottsville that we waited. The guy says, it was a dilemma. It was $2.7 billion next year which we would have to fund out of taxes on you.

It is either $1 billion or $2.7.

Senator HEINZ. You are a highly intelligent man. I enjoy debating you and talking with you and everything.

Mr. IACOCCA. I don't want to debate.

Senator HEINZ. You have a good sense of humor. I wish that every corporation had somebody as able as you. I wish the country was in as good a shape and knew where to get several hundred billions of dollars to bail it out outside of this country.

But by your own admission, when you were talking to Senator Sarbanes, you said 50 to 70 percent of the problems here are management-created problems.

Mr. IACOCCA. Don't take me to 70. I said 50. But go ahead.

Senator HEINZ. Do you want to retract the 70 percent?

Mr. IACOCCA. I don't know the number. I am just saying, and I am not being cavalier about it, about half of the problem we can't lay off on anybody.

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Senator HEINZ. I am saying that there are hundreds of businesses each year that fail, that probably fail for less—for management reasons than you are failing. I will not overburden this point, but you are not giving us much of an answer for our small- and medium-size businesses that are in similar straits.

Mr. IACOCCA. I have the small business problem as much as you have. I have 19,000 suppliers and 4,800 dealers and most of them are going to go belly up. I have the same problem that you have of explaining to them that we couldn't hold it together.

So they have been in business, a Dodge dealer and his family 50 years, tough. That is the way it impacted you.

In this country, when we get that kind of a violent reaction, we leave them for dead. I don't go on bigness alone, although I must say that your government and mine has guaranteed for other reasons, not just postwar eras, $408 billion in guarantees.

I think it is a good investment for the country.

Senator HEINZ. I hope we will find out more about this as we go along of the $1.5 billion that you are supposed to come up with. As I understand it, you are going to make a lot of economizing. You are going to sell some things off. You are going to cut some employees. You are going to create some unemployment here.

My translation of that is that it is employees of Chrysler who are going to bear the brunt of making Chrysler whole—the creditors, the banks, the $200 or $300 million worth of revolving credit that you have, I assume, with Manny-Hanny and others, they are going to be fine. They are not going to have any problem. They are going to get their 15 percent interest paid and they are going to be very happy.

And your common shareholders who are supposed to take all of the risks take none at all.

I just don't think that that is right and I think that we have got to have some changes in this legislation.

Thank you.

The CHAIRMAN. Senator Riegle?

Senator RIEGLE. Let me just say at the outset, that, at least some of us, have very strong feelings about this issue. This is my 13th year in the Congress, 10 years in the House and 3 in the Senate. And the first time I have had a chairman refuse a parliamentary inquiry was today. I regret that. We are past that point and will go on from there.

With respect to the report that was cited, however, that is something that does trouble me. Mr. Chairman I haven't seen the report that you were making reference to a short time ago. I am not aware that any other committee member has seen it.

It is not my understanding that Senator Tower has seen it. It was not made available to me. Apparently, it was generated and made available to you yesterday.

The CHAIRMAN. Do you want me to respond to that?

Senator RIEGLE. When I finish. Yes, I would be happy to have you respond.

But I think it certainly was not made available to the witness. And I think to ask a witness to respond blindly to a report that you

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have that nobody else has and which probably was withheld from other members of the committee—I know I had trouble getting it even now to have a chance to take a look at.

I think it is not fair. And especially in a matter of this seriousness.

If this were just a personal matter, then that is something else again. But when you have got as many other people's lives and circumstances riding on an issue of this enormity, to be anything less than scrupulously fair in seeing that everybody has a chance to have information when it is made available and have a chance to review it, I think is just not right.

I want that clearly on the record.

The study has just now arrived. And, of course, to try to analyze it in the next few minutes is impossible because it runs well over 100 pages.

But what is important is that it is prepared by the regulators. It is prepared by the regulators and the chairman didn't mention that. He omitted the fact, that the very people that were asked to comment on the effect of automobile regulations are the people who write and administer the regulations.

It is not surprising that on the eve of these hearings, that they would suddenly produce a document of this size and that it would appear without any forewarning.

And I fully suspect it was asked for, and probably prepared on request. I suspect that it may well have been requested by this committee. And I will endeavor to find out.

The point is that I think its findings, whatever they may be, are highly suspect for the very reason that they are prepared by somebody who has a vested interest in making themselves look good and to pass off the problem.

So I will be very interested in having a chance to take a look at it. But this is prepared. The name on the front is NHTSA, the National Highway Traffic Safety Administration. They are under enormous pressure because of a very mixed performance, and that is a generous way to put it in view of the work they have done over the years.

I don't know what one would expect by them except other than a conclusion that they have done a terrific job. And anybody out there has nobody to blame but themselves.

Let's talk about other studies that have been done and have been available to the chairman and to the other members and to myself, and which we have all had a chance to take a look at on this very issue that has been raised, and that is the whole question of Federal regulation.

I just want to touch on it because I don't think it is the heart of the problem. I think it is a piece of the problem. It is not the heart of the problem.

The Chairman. Do you want me to answer before you get into that?

Senator RIEGLE. As soon as I finish, I would welcome a response.

We have a clear finding that Federal regulations have penalized the smaller automobile companies by applying equally difficult standards to unequal companies.

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As the chairman knows probably better than anyone else, we decided to act by law to relieve that burden for the automobile company in your home State, American Motors. The size of the company was the rationale. That is why the chairman supported it and, in fact, that is why I supported it.

The fact is that larger companies have more money to spend on product development and new technology and they also have more units over which to spread the cost.

Let me just cite where that comes from. That comes from a document, "the Corporate Strategies of Automobile Manufacturers," prepared by the Futures Group, and commissioned by the U.S. Department of Transportation.

Between 1978 and 1985, it is going to cost Chrysler almost twice as much as it will cost GM to meet fuel economy, emissions, and safety regulations on an individual car basis.

The source for that is a report of stature and standing and it has been available. It is not something that arrived here with the ink still wet. Everybody has had a chance to look at it and analyze it. That is from the impact of government regulations on competition in the U.S. automobile industry by H. C. Wainright & Co., published on March 23 of this year, with accompanying documents.

A third finding is that regulations are sharply reducing competition in the U.S. automobile industry. The cost of regulations have magnified the importance of economies of scale, leaving the larger companies in a far better position to compete.

Federal regulations will probably lead to an increasing concentration of market share by one or two of the largest companies. That comes from Harbridge House, also commissioned by the U.S. Department of Transportation in June 1978, and entitled "Corporate Strategies of the Automotive Manufacturers."

We have reams and reams and reams of factual data that have been available, that everybody has seen, and that verify and validate this particular point.

And so, to have something like this come in without warning at the 11th hour, prepared by the people who do the regulations as a self-justifying document, makes it clear to me why the chairman didn't yield for parliamentary inquiry. I obviously intended to ask where this document came from and when it arrived.

Now we know the answer to that.

I would hope when I finish my comments if the Chairman wants to discuss it further, that we can. But the case facts that we have from studies that have piled up over the years from impartial observers bear out exactly the opposite contention.

Now Mr. Iacocca, there is one key thing that I do want to get on the record before I finish today.

The CHAIRMAN. Do you want me to answer what you have said before you get into something else?

Senator RIEGLE. Let me finish my 10 minutes and then I would be happy to do that.

Mr. Iacocca, you have only been with Chrysler for a year. As I have had a chance to study the automobile industry and study Chrysler's history, one of the things that impresses me the most about the company is the fact that it has one of the best records on affirmative action of any company in the United States.

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And I am speaking now of affirmative action not just with respect to race, where it has an outstanding record, but in addition, affirmative action in two other ways: One is in training and employing the hardcore unemployed; and the second, remaining in inner city locations where it is tough to put and keep and maintain factories and large industrial, high volume operations.

Chrysler so far has not gotten much, if any, credit from anybody for the fact that that is a part of the profile and the operating ethic of the company.

I was very encouraged today when I heard you say, and you make a commitment to this committee, that it was your intention to remain in inner city locations. And you rattled off six or eight places around the country where you now have major facilities in urban areas and that you intend to remain in those urban areas.

I just want to tell you that I applaud that decision. I think it is a courageous one. I think it serves the national interest.

I know it is difficult for you to do that in some respects. But it does need to be done and I think it strengthens your application for help.

In addition to that, the fact that the Department of Transportation study indicates that 1 percent of all of the income for black people in the United States derives from Chrysler is a profound fact. I haven't heard anybody here who seems to be on the side of the collapse indicate or pick that subject up to indicate how that income might otherwise be replaced.

HARDCORE UNEMPLOYMENT JOB TRAINING

Your job training program for hardcore unemployed is probably the model for the United States. I would like you to comment briefly on the facility that you maintain in Detroit and have had for some period of time, to train hardcore unemployed to come off welfare rolls and come into jobs, and who now are people who have job skills at a very high level.

I would like to ask for a response to that.

Mr. IACOCCA. You don't mean just our own training that we do, but you mean for other companies?

Senator RIEGLE. That's right.

Mr. IACOCCA. We have a program, we have a CETA program, which I guess is $16–$18 million a year. I don't even know myself how long we have had it. But we have had it 11 years. And so far we have run through this center 50,000 disadvantaged people. Out of those 50,000 we secured 40,000 jobs someplace in the general area for them. In that 11 years we have had 60 contracts with 14 Government agencies.

It is all done—I was right on our billings. Our billings were $14 million. On that $14 million, we made $1 million–$1.4 million profit on the contracts. But they have been at it a long time and I would like to add, aside from training, you say they had to. Fifty-three percent of our 10 inner city plants are black. And it is an impressive number. And it even shocked me. Blacks in this country, over many years, upward mobility programs and the like have gotten all the way up to $10,000 a year but the Chrysler jobs are about $20,500.

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So we got the good jobs. That is what our jobs average. That is a very important point I am reminded of all the time by the Urban League and by the NAACP. I think they have done, and I had nothing to do with it, but Chrysler, when I was with another employer out there, they did a big job. I think it was a natural extension of the fact that they had so many disadvantaged people to train for their own plants downtown, and that is why they built that center.

Senator RIEGLE. I will conclude by saying I think it is a terrific record. I think it deserves to be highlighted. And I am troubled that it is in jeopardy because the entire company is in jeopardy. I would be happy to yield to the chairman for any comment he wants to make.

The CHAIRMAN. Your time's up. I will do this on my time.

No. 1, I think the Senator from Michigan will recall that yesterday he refused to yield to Senator Heinz, and Senator Heinz persisted very strongly. And I gavelled Senator Heinz down and said that you had the right to maintain the floor and not to yield. Now, there is no distinction, none, in the rules or anywhere else, between the parliamentary request of the Senator to yield or anything else, or for any other reason to request him to yield. I have every bit as much right to maintain the floor and not to yield for a parliamentary request as I have for any other kind of an interruption, if I wish to do so. And so do you, and I honored that yesterday.

The second point made by the Senator from Michigan was that I did not say that this was prepared by the Department of Transportation. I said exactly that. And not only was this made available but the Senator from Michigan was sitting in the precise chair he was sitting in yesterday. Senator Tsongas was just prepared to leave. He had just finished his questioning, and I said the following yesterday and this is on page 215 of the transcript of the hearing, so the Senator can read it if he wishes to do so:

> The CHAIRMAN. Before Senator Tsongas has to go, one of the questions related to the cost of regulation of Chrysler and of smaller companies. I just received a report from the Department of Transportation which the other Senators supporting the Chrysler loan have decided that the Department of Transportation is an expert. Let me read the first paragraph.

And this is what I read:

> Pursuant to your request of November 9, enclosed is a copy of the report analyzing claims that automobile regulations have disproportionate adverse effects on smaller companies, and for analyzing industry supply data, profitability and investment patterns, we concluded there is no data to support such claims. The effect of regulations tend to be proportional to company size and do not have a greater effect on the smaller companies.

That was my quote. And I said that is the report, 100-page report that took almost 1 year to arrive at, and I am going to have it inserted in full in the record, which I did.

Now, at that point it was true, we only had one copy of the report. I made it public. I made it public in the hearings that it was available. The Senator from Michigan did not request the staff for it. No member of his staff requested us to give it to him. He was sitting here. His staff people were sitting here. They heard me say it. They have had 24 hours to ask for this, and I can't help it if

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they are not willing to make the request. They were free to make the request and they didn't do it.

It was available to the Senator. I am grateful to the Senator for highlighting this report. I think without the Senator's insistence on this point, this might have been missed and it is very important, because this is a big part of what Chrysler has been maintaining, that the regulations are the reason, one of the big reasons—certainly not only one but one of the big reasons why they are in difficulty. I think if we hadn't had this interesting colloquy between the Senator from Michigan and myself, it might have been passed over as easily as it was yesterday when I brought it up and mentioned it.

The Senator was here. It was in his presence. He knew about it. I say that I have done my best to try to be fair. I was fair to the Senator yesterday when he didn't want to yield the floor to the Senator from Pennsylvania and I upheld his right, but I am not going to bend over backward and yield to the Senator on a parliamentary point when it has no more status in the rules than any other reason to yield.

And what the Senator said after he got the floor made it clear that if I had yielded to him I would have had no opportunity to question Chairman Iacocca on my time. The Senator would have taken it all. He always does. He is very good at that. [Laughter.]

He would have had no problem for him to use up my 10 minutes arguing with me, so I didn't want to do that.

Senator RIEGLE. Would the Senator yield?

The CHAIRMAN. Yes.

Senator RIEGLE. I was not aware yesterday that Senator Heinz had made a parliamentary inquiry. I didn't think that he had. I think I did a moment ago. I think that is different.

The CHAIRMAN. There is no distinction.

Senator RIEGLE. Perhaps not in your mind.

The CHAIRMAN. Find a place in the rules where the parliamentary inquiry takes precedence over any other kind.

Senator RIEGLE. I didn't say it did. I said in my 13 years in the Congress I have never seen an occasion where a chairman has refused to yield on a parliamentary inquiry. If the Senator would yield briefly further, the other point I would make is that the Senator ought not to be unaware of the fact that this report was mother henned very carefully, since it has arrived here. Nobody else has gotten a copy, to my knowledge.

The CHAIRMAN. Haven't asked for it.

Senator RIEGLE. Mr. Chairman, we have a very large professional staff here on the Banking Committee, as the chairman well knows, because they report to the chairman. And if a document of this sort arrives, fresh off the presses with the kind of import that the chairman is attaching to it, I would assume that it is the responsbility of the staff to provide this to all the members, especially if it has the value you say it does.

You know, apparently we have had 24 hours to make copies. I don't know why it was only in the last 10 minutes that the first copy was made.

The CHAIRMAN. I am glad the Senator makes that suggestion. I will be delighted to carry it out in full and make sure that every

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member of the committee has a copy of this particular report. I think it is a report that every member of the committee, now that we have had our good discussion, will want to go over carefully and make their conclusions, I hope, with respect to this legislation, based in part on this.

I have no further questions.

Senator RIEGLE. If the Senator would yield further, I want to say, as I have said in the past, that I consider the Senator from Wisconsin my friend. I want to continue to do so despite our differences in moments when we both feel strongly I want to continue to be able to work cooperatively together. And I am sure we will.

The CHAIRMAN. I agree wholeheartedly. Senator Garn.

Senator GARN. Thank you, Mr. Chairman. It has been a long hearing, going on nearly 4 hours, and I will not prolong it with additional questions now. I do have some questions that I would ask unanimous consent that I could submit them to Mr. Iacocca and have him respond to them in writing, rather than prolong the hearing any longer this morning.

[See part II, page 1416 for Chrysler's response to Senator Garn.]

Mr. IACOCCA. I would be happy to do that.

The CHAIRMAN. Yes, and we have some questions we would like to ask. Again, my admiration for your remarkable performance. As you know, I am opposed to your request but I have rarely heard a more eloquent, intelligent, well-informed witness than you have been today. You did a brilliant job, and we thank you. We are in your debt.

Mr. IACOCCA. Thank you.

The CHAIRMAN. The committee will stand in recess until 3 o'clock this afternoon.

[Whereupon, at 1:42 p.m., the hearing was adjourned for luncheon.]

AFTERNOON SESSION

OPENING STATEMENT OF CHAIRMAN PROXMIRE

The CHAIRMAN. The committee will come to order. Other Senators will come shortly, but we have a big agenda this afternoon with one, two, three, four, five, six, seven, or eight witnesses. So we had better get going right away.

Mr. Kahn, you have a prepared statement which we would be happy to hear. Before you do that, I want to say, while we particularly asked you to come up, on November 10 you made a statement with regard to the settlement between the UAW and the Chrysler Corp. and the other auto workers.

And in the first place, I congratulate you on making a statement under the circumstances. It is not easy. This was an Administration program, and obviously it raises problems for the Administration.

But inflation, not Chrysler, is our number one problem, and you are the top inflation fighter we have in our Government. You simply have no alternative, in my judgment, except to speak out when you see this kind of a breach. And if you fail to speak out, if COWPS, our watchdog agency, is silent on this kind of thing, there is no question that there is no way we can get to the heart of the

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inflation problem, which could be—hasn't been so far, thanks to your efforts—but could be the escalation of wages chasing prices.

That has been quite a successful operation so far, when you recognize how high inflation is. You have held down the wage increases to well below the inflation level. You won't be able to continue that, however, if we have this kind of thing happening in the future.

Now, I would like to point out that what you said was this with respect to the wage increase. At least you were quoted as saying this. Quote:

> It is outrageous that the company and the UAW"— speaking of Chrysler—"have agreed on a contract we believe almost certainly will breach our standards. The UAW-Chrysler contract does not remotely approach the kind of sacrifice the affected parties have got to demonstrate as a condition of being bailed out through a $1.5 billion package of federal loan guarantees the Administration has proposed to save Chrysler from bankruptcy.

One more point, and that is that you were criticized by Senator Kennedy, or at least the Carter Administration was, when Senator Kennedy said that you haven't raised your voice against wage or price settlements that violate the guidelines. And you reacted very strongly to this, and I take it that this is an example of how you do raise your voice, even though it could have an unfavorable effect on a recommendation, and a very important recommendation, of the Administration.

So we have your statement. You go right ahead.

The CHAIRMAN: Senator Riegle.

STATEMENT OF SENATOR RIEGLE

Senator RIEGLE. It is a pleasure to have Mr. Kahn here, and I am delighted to see him today. Just by way of one or two comments in starting, my understanding is that the administration fully supports the Chrysler loan guarantee legislation that they have sent here, which I have introduced for them and is before this Committee, and that you also support it as a representative of the Administration. I understand that the Price and Wage Council is still in the process of analyzing the wage settlement in the auto industry, but that, it has not yet completed that work.

Your letter that you made public clarifying your, spontaneous comment over the weekend has been made a part of the Committee record. But I gather you are here today supporting the Chrysler loan guarantee package as part of the administration's position.

Finally, as you well know, within the proposal by the Administration, the Loan Guarantee Board, which effectively is the Secretary of the Treasury, has the power to mandate any number of things, including additional sacrifices or investments of effort or money by any of the parties of interest. And that this is a wide-open discretionary authority on his part to help Chrysler come up with the 1.5 of matching new contributions of money required from the parties at interest.

Finally, the issue is left to the Treasury Secretary to see that those contributions are put together in a form that is balanced and fair and practical.

With that as an opening comment, I am very much looking forward to your testimony today.

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The CHAIRMAN. Go ahead.

STATEMENT OF ALFRED E. KAHN, DIRECTOR, COUNCIL ON WAGE AND PRICE STABILITY, ACCOMPANIED BY AL FROM AND SEAN SULLIVAN

Mr. KAHN. Thank you, Mr. Chairman and Senators.

I'd better say, by way of preface, that while I would enjoy the opportunity to be praised for demonstrating a profile in courage, I would not—or any other kind of profile, for that matter—I would not want to leave you with the impression that I spoke out as I did independently of the Administration.

No one in the Administration fashions my rhetoric. But the general sentiment that I expressed is a sentiment shared by the Administration generally on the need for a genuine contribution, and on our feeling that, from what we knew of the contract, it did not represent a sufficient contribution.

ADMINISTRATION SUPPORTS FINANCIAL ASSISTANCE

As Secretary Miller made clear yesterday, the administration strongly supports this legislation and hopes this committee and the Congress will act expeditiously to approve it. The Administration firmly believes this financial assistance for the Chrysler Corp. is justified in order to avoid the adverse effects that a Chrysler failure would have on its employees, its suppliers and dealers, and on the local economies of Detroit, the State of Michigan, and the Midwest.

Secretary Miller has made that assessment and explained to you why he reached that conclusion. I have nothing to add, because I have not studied that question myself. For that reason, I want to emphasize, neither the remarks that I have made publicly in recent days nor the ones I will make today before this committee should be interpreted as meaning that I wish to see passage of this legislation delayed. I do not.

If I may translate that so it is perhaps totally clear, I have not myself studied the case to be made for or against this loan guarantee. I do not have an opinion on it. It is an Administration bill. I have no intention of obstructing that, because I have not studied it myself. My comments were confined to the wage settlement and whether it was or was not a sufficient contribution.

This bill, as you point out, Senator Riegle, as proposed by the Administration, requires that before the Secretary of the Treasury actually makes loan commitment guarantees to Chrysler, he must determine that, "persons with an existing economic stake in the health of the corporation," have made specific financial commitments or concessions sufficient to justify his doing so. It defines such persons as banks, financial institutions, other creditors, suppliers, dealers, stockholders, labor unions, employees, management, et cetera.

UAW FINANCIAL CONCESSIONS INADEQUATE

The point I have made in recent days, and I am satisfied to repeat here this afternoon, is quite simple:

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The financial concessions made by the UAW in the contract it has just signed with Chrysler should not, in my view, be considered adequate to satisfy that condition in the draft legislation.

What is my basis for this assertion? Clearly, there is no scientific yardstick against which I can objectively measure the sufficiency of a contribution in situations like this. Let me therefore set forth the kind of qualitative considerations that underlay the judgment that I offered last Saturday.

[Reading from page 3 of statement.]

[See p. 696].

That is to say, over the next 3 years a reasonable estimate would be that we would hope to have the CPI increase no more than 8 percent and probably 9.

[Reading from page 4 of statement.]

[See p. 697].

Those are our best estimates of actual costs. These figures can only be tentative at this time. This leads me to my second judgmental criteria. One would think that if a contract gave Chrysler's workers a percentage increase in wages and fringes greater than or even equal to what the average American worker has obtained, that does not constitute a sacrifice, particularly in consideration of the fact that the average wage of automobile workers is already far above the national average.

[Reading from statement at page 5.]

[See p. 698].

I should have pointed out at the beginning that I have on my left Mr. Sean Sullivan, who is Assistant Director for Pay on the Council, and Al From, who is the Deputy for Legislative Relations.

[Reading from statement at page 7.]

[See p. 700].

It still would increase by $1.3 billion.

[Reading from statement at page 8.]

[See p. 701].

[The complete statement follows:]

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Testimony of Alfred E. Kahn
before the Senate Committee on
Banking, Housing and Urban Affairs
November 15, 1979

Mr. Chairman, I am happy to testify before you this afternoon about the Chrysler Corporation Loan Guarantee Act of 1979.

As Secretary Miller made clear yesterday, the Administration strongly supports this legislation and hopes that this Committee and the Congress will act expeditiously to approve it.

The Administration firmly believes this financial assistance for the Chrysler Corporation is justified in order to avoid the adverse effects that a Chrysler failure would have on its employees, suppliers and dealers, and on the local economies of Detroit, the State of Michigan and the Midwest.

Secretary Miller has made that assessment, and explained to you why he reached that conclusion. I have nothing to add, because I have not studied the question myself. For that reason, I want to emphasize, neither the remarks I have made publicly in recent days nor the ones I will make today before this Committee should be interpreted as meaning that I wish to see passage of this legislation delayed. I do not.

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This bill, as proposed by the Administration, requires under Sections 102(c) and (d) that before the Secretary of the Treasury actually makes commitments to loan guarantees to Chrysler, he must determine that "persons with an existing economic stake in the health of the Corporation" have made specific financial commitments or concessions sufficient to justify his doing so. It defines such persons as "banks, financial institutions, and other creditors, suppliers, dealers, stockholders, labor unions, employees, management, state, local and other governments, and others directly deriving benefit from production, distribution and sale of products of the Corporation."

The point I have made in recent days and am satisfied to repeat here this afternoon is quite simple: the financial concessions made by the United Automobile Workers in the contract it has just signed with Chrysler should not, in my view, be considered adequate to satisfy that condition in the draft legislation.

What is my basis for this assertion? Clearly there is no scientific yardstick against which one can objectively measure the "sufficiency" of a contribution in situations like this. Let me therefore set forth the kind of qualitative considerations that underlay the judgment I offered.

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First, the contract ought to comply with the standards of responsible wage-setting promulgated by the President in his anti-inflation program. Millions of workers -- both union and non-union -- have accepted wage increases within the President's voluntary standards: these include oil and chemical workers, electrical workers, ladies garment workers, and government employees in 49 states across the country. The Chrysler workers should do no less.

We have not officially received all the details of the Chrysler contract, and will not until it is ratified: that is supposed to happen this week. For this reason, I am not in a position to state officially whether or not it complies with our first year standard. I will have a little more to say about this question of compliance or non-compliance in a moment; but I must emphasize at once that I do not regard this one as the critical consideration. That is to say I would not regard the contract as necessarily reflecting a sufficient contribution even if it proves eventually to be in compliance.

My reason for saying this is that our first year pay standard involved a number of arbitrary valuations of fringe benefits, with the result that a 7 percent settlement under guidelines criteria could in individual instances be markedly higher, in terms of the value of what employees actually received, on the one side, and the costs to employers, on the other. The

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standard proved to be especially lenient in judging contracts embodying a cost of living adjustment clause. The Chrysler contract includes such a clause, which gives its workers something like 75 percent protection against increases in the Consumer Price Index in the first two years and 90 percent in the third. At the time when the first year wage standard was formulated, it seemed reasonable to evaluate a 100 percent COLA clause in a three-year contract at 6 percent annually: that is, it seemed a reasonable expectation that the CPI would go up at only a 6 percent average annual rate over the following three years.

That expectation has clearly proved to be excessively optimistic: a more reasonable estimate today would be in the 8 to 9 percent range. Evaluating the Chrysler contract on that basis, and making the most realistic assessment we can at this stage of all the costs it actually would impose on the corporation produces an estimated increase in wages and private fringes of 28.8 to 30.4 percent over the three years, or 8.8 to 9.3 percent per year. These figures can only be tentative at this time.

This leads to the second judgmental criterion I applied: one would think that if the contract give Chrysler's workers a percentage increase in wages and fringes greater than or even equal to what the average American worker has obtained, that does not constitute a sacrifice -- particularly in consideration of the fact that the average wage of automobile workers is already far above the national average.

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The average increase of wages and private fringes of all American workers during our first program year was 8 1/2 percent. Our corresponding estimate for Chrysler is 8.8 to 9.3.

Third, I asked myself how have other workers fared in comparable situations. The closest analogy I can think of is the employees of the City of New York during the period when their employer received the same kind of extraordinary aid as the Administration is proposing here. I have not been able to make a detailed comparison, but I have been assured that these employees received increases far smaller than are contemplated here, not just in the first years of the fiscal crisis but even now, in the contract covering 1978-80.

Similarly, when I was Chairman of the Civil Aeronautics Board, I became aware of the arrangement that Eastern Airlines made with its employees, when that company seemed to be in serious financial difficulties and jobs were threatened. Eastern's employees agreed to a total wage freeze for the first year, even though their contracts in some cases provided for a substantial increase; and accepted the opportunity of exchanging the foregone increases for company stock. They also agreed for five years to a variable earnings program under which 3 1/2 percent of their wages were to be withheld each year; depending on how well company

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profits turned out to be, they could get the full amount back, receive less or receive up to one-third more. And this was a case in which Eastern was not getting a government bail-out.

These are the kinds of considerations I had in mind when I expressed the view that the automobile workers should be called upon to make a greater contribution to the financial solvency of the Chrysler Corporation than is apparent in their recent contract. Whether that additional contribution takes the form of renegotiating the contract or some other form I am not prepared or qualified to say.

Because these remarks of mine have focussed on the UAW -- this was because we have just analyzed its new contract with Ford and General Motors -- I want particularly to emphasize that the Administration should and will be at least equally vigilant in looking for corresponding contributions from all the affected parties -- stockholders, creditors, suppliers, and so on.

I return briefly to the matter of how the new contracts signed by the UAW with the big three auto manufacturers relate to the President's voluntary wage standard.

On November 8, the Council on Wage and Price Stability issued notices of probable non-compliance to the General Motors Corporation and Ford Motor Company as well as to the United Automobile and Agricultural Implement Workers International.

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Chrysler was not issued such a notice at that time because its new contract had not yet been ratified and, as I have already observed, we have not officially received it. What we have received is information from both the company and the union about the respects in which the Chrysler contract differs from the other two.

That notification to GM and Ford of probable non-compliance conveys only very limited information. It is not a definitive determination. It is only a notification to the companies and unions involved that upon analysis the Council's pay monitoring staff has reason to believe that the contracts involved do not comply with the standard.

Upon receipt of the notice, the parties involved have ten business days in which to respond and make their case that they are not in violation. A conference is then held between the Council staff and respresentatives of the parties, and the latter are given an opportunity to take corrective action. Only at the end of that process do we make a final determination.

In the case of GM and Ford, the Council staff calculates the increase in the contracts as above the 22.5 percent three year increase allowable under our first year standard, even with the proforma 6 percent evaluation of their COLA clauses. I am limited in my ability to discuss the details because both Ford and General Motors are contending that their contracts do comply and we have not yet gone through the conference process I have just described.

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As the Committee is aware, the UAW has made some concessions in its contract with Chrysler, in the form of delayed wage increases, fewer paid holidays, a delay in folding the cost of living add-on into the base rates for sickness and accident insurance purposes, and a delay in implementing the full schedule of pension benefits. The UAW and Chrysler have estimated that these terms will provide between $203 and $206 million in total savings to the company over the three year life of the contract. The concessions are obviously substantial. For comparison, however, we estimate the contract will (at an assumed average annual increase in the CPI of 8 percent) add $1.3 billion in total costs to the company over its three years -- this is after making allowances for the $200 million saving. Moreover, despite these delays, the wage and benefit packages for Chrysler workers at the end of each contract year will be virtually identical to those at Ford and General Motors. This means that it will have the same long-term inflationary effect as those two. In my opinion, that is just not good enough.

Let me conclude by reminding you that the Administration's bill instructs the Secretary of the Treasury to determine the sufficiency of the financing plan, taking into account the contributions of the various interested parties. I do not presume that he will take my assertions today as inviolable instructions. What I can assure you is that he will insist that the contributions be genuine.

I want to remind you, finally that we do not want to make workers the scapegoats for bad management. But we also do not want to risk public funds, or confer special advantages on a particular business and its workers without getting commensurate sacrifices from them.

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Mr. KAHN. Thank you very much.

The CHAIRMAN. Thank you, Mr. Kahn, for an excellent statement. Mr. Kahn, before we acted on the New York City guarantee, we insisted that they renegotiate their labor contracts, so we had it before us. That negotiated contract was between 3½ and 4 percent a year increase, 7 to 8 percent for 2 years. So it was a fraction of what this one is. And of course, inflation at that time was somewhat lower than it is now. But on any basis, it was certainly far less than the proposed settlement here that the Chrysler workers are now considering.

CHRYSLER WORKERS MUST SACRIFICE

If we are going to have an effective way of requiring the Chrysler workers to make the kind of sacrifice which you indicate they should make and which I feel strongly they should make, shouldn't we make that a condition in the legislation, rather than leaving that to the discretion of the President? I have great faith in the President, but this is a presidential year, and let's not kid ourselves. The fact is, the pressure on the President of the United States is going to be tremendous to go ahead with the guarantee.

There are a number of States that would be affected by this and affected greatly. It seems to me the pressure would be almost irresistible. So it would seem to be only sensible for us to make it clear in the legislation, when we have the bargaining power up here, that if we are going to go ahead with the guarantee, the workers must agree that they will make a genuine sacrifice and come in well below what the present settlement provides.

Mr. KAHN. I feel that I cannot give you additional guidance on that, Mr. CHAIRMAN. The President feels that the provision in the bill is sufficient. I don't have any basis for disagreeing with him. I assure you, that is not for fear of my job security. I just don't have a basis for assessing the urgency of the need, the delay to which extending it might be subject if Congress decided to formulate some more precise provision in the law.

You have had Secretary Miller testify before you. You can, I assume, demand whatever guarantees you wish or make clear your intention in one way or another. I am not in a position to disagree with the President's view that the provision in there is sufficient and that his expression of determination and that of Secretary Miller to get genuine sacrifices are sufficient.

The CHAIRMAN. We have an alternative. We can either hold up the legislation, which is a possibility—I don't know if a majority of the Committee would favor that—but the other alternative is to go

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ahead with the legislation forthwith and simply write into the legislation this provision that you can't trigger the guarantee until you have that commitment.

It would seem to me that a majority of the committee might possibly, and a majority of the Congress might agree that we should have this. If we are going to have it, I can't see any reason in the world why we shouldn't write it into the law, rather than simply indicate that the administration has discretion to do it or not depending on how they feel about it.

Mr. KAHN. I suppose I would in some degree be upset that my rather strong characterizations of the present settlement and its insufficiency might in that case contribute to a delay that the President doesn't want.

On the other hand, I feel I have no choice but to make my observation.

The CHAIRMAN. At any rate, you make it clear to me on the basis of your analysis that it would seem that this settlement does not fall within the guidelines.

Mr. KAHN. I can't be absolutely certain about that, Mr. Chairman.

The CHAIRMAN. You can't be certain of that. But you say the vote is this week. We intend to mark this up as quickly as we can.

When do you think you could have a definitive determination?

Mr. SULLIVAN. Well, sir, that process has tended to drag on in the past with other negotiations. But given the need for speed here, we have scheduled a meeting with Chrysler the week after Thanksgiving to go through their numbers in detail. By that time I think we will have resolved many of the key issues by talking to GM and Ford in the meantime.

So I would hope that very shortly after that time, after that meeting, we could have a final decision.

Mr. KAHN. May I refer to the section of my testimony in which I emphasized that a settlement can be in compliance with the guidelines and still involve probable real costs on the order of 9 percent per year.

The CHAIRMAN. That's what I wanted to come to now. You are not sure about whether or not this is within the guidelines, although it seems ——

Mr. KAHN. It is probable.

The CHAIRMAN. The second point: It is clear this is not a sacrifice. These are the highest-paid workers in the country. That the example in the New York situation was that there was a much more substantial sacrifice. But in the case of the airlines, they had an actual freeze, no increase whatsoever, in order to help the company get by.

So that this—in this particular case, we have unique circumstance, is that right?

Mr. KAHN. Yes. The BLS figures for 1979 show that average hourly production worker earnings in automobile workers was $9.71; for all manufacturing, it was $6.77; $9.71, $6.77.

Moreover, if you look at the percentage change in that figure over the last 10 years, that is, from September 1969 to September 1979, you find that in the motor vehicle field these average hourly production worker earnings went up 126 percent. All manufactur-

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ing went up 109 percent. The Consumer Price Index in that period went up 101 percent.

The CHAIRMAN. Mr. Kahn, if this company, if Chrysler Corp., which is the most visible bailout we have had in our history, is by far the biggest, and everybody in the country is aware of it, if this corporation is able to get by with a settlement which is in excess of the guidelines and without a sacrifice, what happens to your guidelines? What kind of respect can they command elsewhere? How can an employer expect to tell his union we have effective guidelines in this country and we expect you to comply with them, because we are fighting inflation? And they just turn around and say: But look what the Government has done with respect to the Chrysler Corp., UAW. They are paid more than I am and they get 10 percent a year increase.

Mr. KAHN. I think, Mr. Chairman——

NONCOMPLIANCE OF WAGE GUIDELINES

The CHAIRMAN. Doesn't this wreck your guidelines if we go through with it this way?

Mr. KAHN. Using Washington language, it diminishes their viability. [Laughter.]

It obviously is painful. And that explains—the urgency with which I speak. And that is true, I must observe, even if they prove to be in compliance, because one of the most serious problems we have had in continuing to get voluntary adherence to the standards has been the discrepancy that has opened up between workers who have the benefit of the protection of what is called cost of living adjustments, but really are CPI adjustments, and the ones that have not.

So that it is painful for someone who is interested in trying to get restraint in wages.

The CHAIRMAN. Have you found that GM and Ford are not in compliance?

Mr. KAHN. Probable. We have issued a notice of probable noncompliance. They will be coming in next week to make their argument. It is the usual process.

Mr. SULLIVAN. There will be no finding for a while yet.

The CHAIRMAN. But we do have other witnesses, so we can move along as rapidly as possible. Thank you. Senator Garn?

Senator GARN. Thank you, Mr. Chairman.

Mr. Kahn, I am trying to keep an open mind during these hearings. Based upon what I have heard you testify and what I have gathered from other information, the wage settlement really disturbs me because from your testimony, and Mr. Iacocca's earlier, they, UAW members, have given concessions of $203 million. But as you say, it will add $1.3 billion in total costs to the company over its 3-year life.

The administration's recommendation is for $1.5 billion of loan guarantees.

So essentially, what we are being asked to do is to guarantee the wage increases. Is that correct?

Mr. KAHN. I guess that is a fair characterization.

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Senator GARN. Well, the numbers are pretty close and that disturbs me because I can remember once when I was just a very young man working and I was given a choice that the company was in kind of difficulty and all of us, particularly the part-time workers, were told that if you want to keep your job, you are not going to get a pay increase.

Having had to make that choice, I took the job rather than the pay increase or to fight about it.

Now we are told about all of these dire consequences and that Chrysler is going to fold immediately. And 160,000, or whatever the figure is, are going to be out of work. And yet, at the end of this contract, they are going to receive as much as Ford and Chrysler workers.

I don't see any real sacrifice and that disturbs me. It starts to turn me very dramatically against this. And I am having a hard time keeping an open mind and a fair mind in judging this.

It would seem to me if the consequences are really that dire, that all these people making $20,000 a year, or whatever their level is, would rather have a job than be unemployed. And yet, they are still insisting on this big wage package and the $203 million concession is something, but not very much.

So essentially, we are being asked to guarantee the wage increase. I guess the next question then is if they were willing to accept a moratorium and get to Mr. Iacocca, get to his 1 million K-cars next year and start making sales, maybe we don't need any loan guarantees at all. I am not asking the employees to bear the whole burden. That is carrying it a little too far but certainly, there ought to be more room for the UAW to help keep this company in business.

They have the most at stake of anybody, even more so than stockholders.

Do you have any further comment on that?

Mr. KAHN. Two things, Senator. For one, I genuinely appreciate the conscientiousness with which you have been looking at this issue, especially since I am sure your principles and, indeed, mine, would regard bail-out of a failing company as something that one should almost never do but only is one is clearly convinced that the consequences are really very, very serious and that one is being excessively ideological in refusing to make an honest comparison of the costs and the benefits.

The second is I am in kind of a way in a smug intellectual position because I am not taking a position on whether the disruptions and the pain of the process of letting Chrysler go under justify intervention.

But I can say if the administration has made that calculation, all I can say is I would not have any opposition provided there were a genuine sacrifice. And I agree with you that that is not——

Senator GARN. I have a hard time asking the American taxpayer to guarantee this if the ones who are most directly affected by it, those who want $1.3 billion worth of increases over the next 3 years—certainly the risk to the taxpayer could be cut down greatly.

And I certainly agree with the chairman. We ought to consider writing this into the legislation. They want guarantees. There are

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lots of people who make sacrifices around this country. There are lots of people who are unemployed right now through no fault of their own who didn't have a choice between a wage increase and a job.

They are just out.

And that is increasing at a time when inflation is also increasing.

I am disturbed, too, because I start to see a pattern developing just like in New York. I sat through 5 years on this committee of New York hearings. I heard from two or three different mayors and all sorts of officials from New York City. They are going to be back in here again. You wait and see.

Most everything that I used to be laughing at when I sat down and criticized New York is happening. I am sorry that I was such an accurate prophet.

Well, I won't belabor the point. I think I have made mine. These statistics are very disturbing to me about the contribution of the UAW. I think Senator Heinz is also correct about not enough contribution by stockholders. They also play a big part in this.

I think equity should be pushed as well. I am starting to see a pattern, I think, where before the Federal Government is asked for $1.5 billion, we need to ask for a little more from each one of the interested segments that you mentioned to make as big a contribution as they can and then come back to us with a request for loan guarantees, and the committee might be a great deal more sympathetic.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Riegle?

Senator RIEGLE. Thank you. Mr. Kahn, what is the inflation rate at the present time? About 14 percent, isn't it?

Mr. KAHN. The CPI is 13 over the last several months.

Senator RIEGLE. What was it last month?

Mr. KAHN. I have already forgotten.

Senator RIEGLE. It was higher than 13. Was it above 13?

Mr. KAHN. Yes, it was between 13 and 14.

Senator RIEGLE. So it is nearly at 14 percent. You have not finished your analysis of the Chrysler settlement. So let's set Chrysler aside for the moment. Let's talk about GM and Ford because you are further along in your analysis of their packages.

WAGE INCREASE BELOW INFLATION RATE

Are the workers in those situations getting a figure that is essentially at the rate of the inflation rate, namely the 13 percent?

Mr. KAHN. Oh, no.

Senator RIEGLE. They are coming in far below that, aren't they?

Mr. KAHN. I don't know of any workers in the United States that are getting that.

Senator RIEGLE. That's right. They are coming in substantially below that. So as a matter of fact, those workers, like virtually all other workers in the country, are experiencing a reduction in their living standard.

They are experiencing a reduction in the real income. Isn't that correct?

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Mr. KAHN. That is correct, although no doubt, the CPI exaggerates it substantially.

Senator RIEGLE. One can argue that it does or doesn't. I think you and others would have some obligation to take the CPI apart and put it back together in a new form. But the point is that that is what we use and that is the best we have.

Mr. KAHN. You are asking me not about numbers, but about facts and in terms of facts. As I have said many times to this committee, the CPI does exaggerate, Senator, by at least a couple of points.

Senator RIEGLE. I don't really think that is the key issue. The key issue is that the inflation rate is running at almost twice the rate of the salary increases are that are taking place.

Isn't that correct?

Mr. KAHN. Well, we are talking about increases—I said that in the first year. The pay and fringes, private fringes alone went up 8.5 percent.

Senator RIEGLE. 8.5 is 1 percent of 14.

Mr. KAHN. 14 is the wrong number, I would suggest.

Senator RIEGLE. Let's say 13. I think if you were to leave the suggestion on the record that workers are not sustaining a loss in their real incomes with these new contracts, that that would be a dishonest inference.

As a matter of fact, these wage settlements that are falling far below the inflation rate do involve considerable sacrifice. They do involve a reduction in the standard of living, do they not, in real terms?

Yes or no? Either it does or it doesn't.

Mr. KAHN. I am not in the position to estimate how much. But I would certainly agree that workers, particularly who have not had the benefit of cost-of-living adjustment clauses—and that is the important thing—have suffered real declines in standard of living, in view of a contract that gives you 90-percent production against changes in the CPI. And if you recognize that the CPI is not the same thing as the cost of living, then those workers will suffer no decline in income.

Senator RIEGLE. If we want to go back to the Chrysler package, which you haven't had a chance to analyze yet and you have not made a determination on, it does not provide that, at least in the early years of the contract, if I heard you correctly..

Mr. KAHN. It does not. But what it provides is a 3-percent annual improvement factor, plus 75 percent of the CPI. So that if the CPI goes up to 13 percent, the cost of this contract is going to be much higher than the 9 that I gave you.

Senator RIEGLE. My point is, and I think you have made it, although you have a hard time sticking with it, is that the wage increases under any circumstances are running substantially behind the inflation rate. Therefore, the workers involved are experiencing a real reduction in their standard of living.

That is what is happening.

Mr. KAHN. It can't be true of these wage increases because they have 75 to 90 percent protection.

Senator RIEGLE. Less than 100.

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Mr. KAHN. But you have to add 3 points of the annual improvement factor and the fringes.

Look, Senator, I am not denying that the working people in this country and, indeed, almost all people in this country, have suffered some decline in real income.

What is important to understand is the ones who have the protection of CPI clauses are the least suffering. They have suffered less than the average and they will suffer less than the average in the future.

Senator RIEGLE. As I go through your statement, it seems that what you have said is that the Administration is supporting this package.

Mr. KAHN. It is.

Senator RIEGLE. And I have not heard you say that you are not supporting the package.

Mr. KAHN. You are quite right.

Senator RIEGLE. You are in the middle of doing your analysis of the Chrysler settlement. You haven't completed your analysis. You haven't sent out any notices of noncompliance to Ford and GM which are higher packages than the Chrysler package.

The Chrysler package is less. You have not yet analyzed that. You say here, and I quote you: "The concessions are obviously substantial."

But beyond that, the Secretary of the Treasury, if we pass this legislation, is free to go in and fight for any other modifications that he thinks are justified. Isn't that correct?

Mr. KAHN. That is quite correct.

Senator RIEGLE. So we have a situation, if this legislation is passed, that if your view after you finish this work is persuasive, that the Secretary of the Treasury is absolutely free to pursue it in whatever way he desires.

Is that accurate?

Mr. KAHN. Yes.

Senator RIEGLE. Why doesn't that provide sufficient flexibility for everyone?

Mr. KAHN. I said in my statement that I do not wish my statements to delay passage of the legislation.

Senator RIEGLE. Do you think that is sufficient flexibility? Do you think that is sufficient power?

Mr. KAHN. Yes. The only question is whether you are satisfied that he will exercise it.

Senator RIEGLE. Are you satisfied? Do you have confidence that the Secretary would exercise that prudently.

Mr. KAHN. If he doesn't, I will scream like hell.

Senator RIEGLE. That is not quite the question I asked.

Mr. KAHN. I have no reason to doubt Secretary Miller's and the President's firmness in——

Senator RIEGLE. You have confidence that with the flexibility that lets him go in and seek whatever he thinks is justified, is a power that he will fully exercise.

Mr. KAHN. I do, indeed, and the President feels very strongly about that, too.

Senator RIEGLE. I think that that is very helpful that you feel that way. I feel the same way. I think that that is exactly why the

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plan has been designed this way. Coming up with the additional efforts or the sacrifices or the contributions from the various parties of interest, can be structured in virtually any fashion that the Secretary of the Treasury deems most appropriate.

You have been frank to say that you haven't done your work on Chrysler yet. What you have said is that you are not sure what the inflationary effect of these wage packages are, but that it is clear that the power of the Secretary is absolutely sufficient in the legislation to see that whatever has to be done can be done.

Is that correct?

Mr. KAHN. Yes. May I just qualify that? I won't do it substantively, but just to say that I have spelled out in the testimony exactly what we are reasonably sure about and what not.

Senator RIEGLE. I understand. But you see, you have also said that you haven't had a chance to study the whole Chrysler package. And you are familiar with the operation and outlines of the legislative authority, and you are clear on the fact that the Secretary of the Treasury has the power to do exactly what you might want to recommend to him if he is convinced that is appropriate.

Is that right?

Mr. KAHN. Yes, sir.

Senator RIEGLE. You have no reservation about that?

Mr. KAHN. Right.

Senator RIEGLE. Thank you.

Senator GARN. We have a vote going, gentlemen. We can continue until 5-minute bells.

Senator Sarbanes, if you want to go ahead, I will go vote.

Senator SARBANES. I will adjourn if he is not back.

Senator GARN. If he doesn't get back in time, recess the committee long enough until he does arrive.

Senator SARBANES. Mr. Kahn, what is the administration's guideline figure?

Mr. KAHN. For wage increases in the first program year? It is 7 percent. But you have to have a lot of footnotes about the calculation of that.

Senator SARBANES. When you set that figure, was it made in the context of a particular assumption about the rate of inflation?

Mr. KAHN. Yes, exactly. One of the important assumptions was that over the next 3 years when we set the figure, the CPI would increase an average of 6 percent. That is the valuation that we placed on COLA clauses.

Senator SARBANES. If the rate of inflation had been higher than that, I would assume that you would have a higher figure, would you not?

Mr. KAHN. Other things being equal, we might have set a different standard, yes.

Senator SARBANES. Does that answer mean yes?

Mr. KAHN. Well, I am not trying to be evasive. The CPI has been going up 13 percent per year. I still believe that it would be a terrible mistake for this country to increase the standard above, let's say, the 8½ percent that people have actually earned because it would just promote more inflation.

We have learned——

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Senator SARBANES. Would you have an 8½-percent standard if the CPI were going up 20 percent a year?

Mr. KAHN. No, obviously not.

Senator SARBANES. No, you will relate it to the inflation rate.

Mr. KAHN. I agree.

Senator SARBANES. Haven't the wage settlements in this country made a contribution because they have lagged behind the CPI? Isn't that a fact?

Mr. KAHN. I was just through that with Senator Riegle. They have lagged behind the CPI. But the ones who have 75 to 100 percent cost of living adjust get 75 to 100 of the CPI, and therefore, there are some wages that have not lagged.

Senator SARBANES. They have lagged behind to the tune of 25 percent, given a 75 percent adjustment. Now you are going to tell me that the CPI is not accurate. Because of the way mortgage interest is treated?

Mr. KAHN. That is one of the important reasons.

Senator SARBANES. What is the other?

Mr. KAHN. Don't tell me what I was going to tell you. I will tell you what I was going to tell you. If you have a contract——

Senator SARBANES. Why don't you answer the questions and let me ask the questions.

Mr. KAHN. You asked me if it lags behind the CPI if you have a 75 percent COLA. The answer is not necessarily. If you have 3-percent annual improvement factor and a 75 percent adjustment for the CPI and the CPI goes up 13 percent, your wages will go up 13 percent.

In other words, if you just had 75 percent CPI, you clearly would lag. But if you have other increases in wages, increases in pensions, increases in other fringes, then it depends on how the two work together.

That's all

Senator SARBANES. Have the auto workers been lagging behind up to this point?

Mr. KAHN. Surely not behind the average of American workers.

Senator SARBANES. No, behind the CPI.

Mr. KAHN. It depends on what period you take. If you take the last 3 years, under their present contract, their wages went up 28.4 percent, the CPI went 29.4 percent. So they lagged by 1 percentage over 3 years.

All workers lagged more.

Senator SARBANES. They may be trying to catch up.

Mr. KAHN. I don't have any doubt.

Senator SARBANES. Is your position—I am not quite clear what your position is on this issue.

Mr. KAHN. My positions are two: One, that I have no quarrel with the Administration's espousal of this bill, and therefore, I hope the committee passes it promptly; second, that I feel that the——

Senator SARBANES. As is.

Mr. KAHN. Yes.

Senator SARBANES. Without adding conditions.

Mr. KAHN. That is correct. And the second is I believe the contract settlement of the UAW does not meet the conditions that

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are in the bill now. And therefore, I am telling the public and anyone else who will listen that I believe that Secretary Miller not only should but will in enforcing the conditions ask for a sacrifice more commensurate with the extraordinary character of the assistance that the government is providing.

Senator SARBANES. Have you discussed that with Secretary Miller?

Mr. KAHN. Yes.

Senator SARBANES. You understand that to be his position?

Mr. KAHN. I do.

MANAGEMENT SALARIES

Senator SARBANES. Have you looked at the management salaries?

Mr. KAHN. They are subject to our standards, but I don't know.

Mr. SULLIVAN. Senator ——

Senator SARBANES. I would assume that the management salaries are not covered by the contract between the UAW and the Chrysler Corp. Is that a fair assumption?

Mr. KAHN. Of course.

Senator SARBANES. Have you looked at management salaries?

Mr. SULLIVAN. We have not looked at specific salaries for Chrysler executives, or executives of any individual company unless they are merged into larger groups that we monitor. We don't monitor specific executives as a specific group, but rather, as a part of what we call the management group for most companies.

And we haven't looked at them specifically from Chrysler, no.

Senator SARBANES. I have to recess this hearing to make that vote. And I think the chairman is probably on his way back. So if you gentlemen would just stay where you are, we will be back.

[Recess.]

The CHAIRMAN. Mr. Kahn, I want to thank you very, very much. I think that you have done an excellent job in setting forth the situation here and making us aware of the problems involved. We are in your debt.

Senators—obviously all of the Senators couldn't be here and some wanted very much, I am sure, to pursue the questioning. But we do have a number of other witnesses.

Our next witness is Mr. R. Heath Larry, president, National Association of Manufacturers.

STATEMENT OF R. HEATH LARRY, PRESIDENT, NATIONAL ASSOCIATION OF MANUFACTURERS

The CHAIRMAN. Mr. Larry, we are delighted to have you. We are very, very interested in what you are going to have to say because I realize, again, it is a very difficult issue for you.

Chrysler is a very fine manufacturing firm and I guess is a member of your organization, is it not?

Mr. LARRY. They are so far, sir.

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The CHAIRMAN. Very good. Go ahead.

Mr. LARRY. I would hope that they would remain.

Mr. Chairman, we are filing with you the same statement that we filed with the House Committee on Banking, Finance, and Urban Affairs. I hope that you would permit that to be entered into the record.

We have no reason to change it.

The CHAIRMAN. Yes, it will be entered into the record.

Mr. LARRY. I would like to supplement it by way of emphasis with a few remarks, if you would permit me, and I will get underway with that very, very quickly.

Frankly, we are inclined to look at the Chrysler matter, not as really the crux of our problems today, but as one symptom—of a very longstanding disease, really, a political disease and in a word, it is a disease of not tending to equate business with people.

I think Mr. Nader has contributed to the disease, and overzealous consumers and environmentalists have. The academic community at times has and Government, in both legislative and the executive branches, has. And it has been spreading and it has been neglected.

So now, finally, one major business enterprise is on the verge of succumbing and all of a sudden, people in all phases of the political life have decided that business is, indeed, people.

I don't think that any better illustration can be found than in the last paragraph of an article in the Post of November 7, in which there was reported a conversation with a Michigan congressional aide.

He said:

> It is fine for George Wills to make hypothetical statements about keeping the government out of the economy. But in this case, families are at stake and it looks different from that angle.

One is driven to ask, weren't families involved in the failure of Penn Central? Weren't families involved in the failures of W. T. Grant and Food Fair, and scores of other small businesses?

We are greatly concerned about the survival of Chrysler, but we are also concerned about the survival of our form of political, economic system. We dare not look at Chrysler as a one-time phenomenon.

Industry in America has been left unduly exposed to external threats to its markets and has been unduly imposed upon by well meaning lawmakers and regulators at home. It has had to endure a climate which is inhospitable to savings and capital replacement, almost more than any other industrial nation, all the while enduring castigations about failure to modernize and be competitive.

We really can't any longer in this country afford this kind of antipathy. We badly need a new industrial strategy. The current crisis in Chrysler will have been for naught if our Government fails now to address this broader issue.

The United States simply cannot aspire to world military and political leadership if it is going to be industrially weak, nor can it expect economic growth and rising real income at home.

If the Congress will come to grips with these fundamental problems, it may not again have to face the embarrassment of having to put its thumb on the competitive scales within an industry—or

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wondering how to explain to nonconsenting taxpayers that their money is about to become an involuntary investment in a major corporation.

Now, as to Chrysler itself. We are not among those who point the finger of scorn at its managment. We have no expertise which would provide a basis to question either its integrity nor its competence.

Nor do we have any reason to point the finger of scorn at its products. Our experience leads us to think of them only in terms of the highest quality and serviceability.

Nor are we experts in bankruptcy law. We are aware that some of our members have resorted to chapter II of the Bankruptcy Code and now are surviving well. We are aware that some well-known students of finance such as Roy Little, have asserted that chapter II was tailormade for the likes of the Chrysler situation. But lacking firsthand expertise, we can only invite you to question very carefully whether additional Federal help in the manner proposed by the administration, is the only avenue to future viability and success for the Chrysler Corp. and those whose jobs depend upon it.

What we do know is that Chrysler is not alone among our members who have found it difficult to obtain the credits they need to sustain their business and their jobs, which depend upon them. We know also that bankruptcies have not been uncommon; that proceedings under chapter II have not been uncommon.

Thus, we must put to the Congress the proposition that if it chooses to provide additional help in the Chrysler situation, it must also provide similar help to all other corporate entities—large or small—who may now or subsequently experience a similar problem—or provide an explanation as to "why not?" Our members will surely be asking. Surely size alone is no answer, except possibly in political terms.

Our next point is that all proposals for assistance which we have seen thus far have been conditioned upon presentation to an administrative board of plans which will satisfy the public's concern for the vitality of current and future Chrysler management and the viability of its current and future business plans.

But can Congress ignore the fact that the various presentations made by Chrysler have all placed heavy emphasis upon the special burden which it and similar types of business bear under existing DOE and EPA regulations? Not only it, but other competing manufacturers, are distressed about unwarranted regulations which impose burdens beyond the reasonable needs of health and safety and extend their interference, in fact to violation of personal freedoms. The pending requirements for passive restraints—air bags—are an example.

If it is resonable to condition any help to Chrysler on new management plans, which are thought of as being only part of the problem, is it not also reasenable to condition new help upon a commitment by Government to remedy its part of the problem? And in the absence of any such commitment, will not the result be merely to throw good money after bad?

We have not chosen to discourse upon theories of free enterprise in these few remarks, although we do have strong feelings and concern about the direction new forms of Federal intervention may

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forecast. We have chosen rather to raise some practical questions and try to point out to Congress that if it chooses to make a decision in the Chrysler case, we have a right to expect that it will have done so in the framework of having determined upon some long range directions for all of industry—not just Chrysler—and upon the future tone of business/government relations—and to do both with complete awareness of the long range consequences of its present determination.)

[Complete statement of Mr. Larry follows:]

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STATEMENT

OF

R. HEATH LARRY

NATIONAL ASSOCIATION OF MANUFACTURERS

TO THE

COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

U.S. SENATE

November 15, 1979

We are filing with you today the same statement that we filed with the House Committee on Banking, Finance and Urban Affairs, Subcommittee on Economic Stabilization.

We have no reason to change it, and I presume it can be accepted for the record without the need to read it in full.

Today I would like to take only a very few moments to try to put the Chrysler matter into some type of perspective, as we see it. Frankly, we think of Chrysler, not as the crux of the matter, but rather as one symptom of a very long-standing disease - really a political disease, to wit, namely the disease of presuming that the interests of business and people are not the same - but, in fact, are opposed. Nader has contributed to the disease; consumers and environmentalists of various kinds have contributed; the academic community at all levels have contributed; government - in both Executive and Legislative branches - has contributed.

It has been spreading; it has been neglected - so now, finally, one major business enterprise is on the verge of succumbing. And all of a sudden, people in all phases of political life have discovered that business is indeed people.

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No better illustration can be found than in the last paragraph of an article appearing in The Washington Post for Wednesday, November 7: "The nation has a moral obligation to support this plan," said a Michigan congressional aide. "It's fine for (columnist) George Will to make hypothetical statements about keeping the government out of the economy, but in this case, families are at stake and it looks different from that angle." One is driven to ask: Weren't families involved in the failure of Penn Central? Weren't families involved in the failures of W. T. Grant and Food Fair and scores of other small businesses?

We are greatly concerned about the survival of Chrysler, but we are also concerned about the survival of our form of economic system.

We dare not look at Chrysler as a one-time phenomenon. Industry in America has been left unduly exposed to external threats to its markets and unduly imposed upon by well-meaning lawmakers and regulators at home. It has had to endure a climate less hospitable to savings, and capital replacement than almost any other industrial nation, all the while enduring castigations for failure to modernize and be competitive. We can no longer afford the luxury of this antipathy; we badly need a new industrial strategy; and the current crisis of Chrysler will have been for naught if our government fails now to address this broader issue. The U.S. simply cannot aspire to world military and political leadership if it is industrially weak. Nor can it expect economic growth and rising real income at home.

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If the Congress will come to grips with these fundamental problems, it may not again have to face the embarrassment of having to put its thumb on the competitive scales within an industry - or wondering how to explain to non-consenting taxpayers that their money is about to become an involuntary investment in a major corporation.

Now, as to Chrysler itself. We are not among those who point the finger of scorn at its management. We have no expertise which would provide a basis to question either its integrity nor its competence.

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What we do know is that Chrysler is not alone among our members who have found it difficult to obtain the credits they need to sustain their business and their jobs, which depend upon them.

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Our next point is that all proposals for assistance which we have seen thus far have been conditioned upon presentation to an Administrative Board of plans which will satisfy the public's concern for the vitality of current and future Chrysler management and the viability of its current and future business plans.

But can Congress ignore the fact that the various presentations made by Chrysler have all placed heavy emphasis upon the special burden which it and similar types of business bear under existing DOE and EPA regulations? Not only it, but other competing manufacturers, are distressed about unwarranted regulations which impose burdens beyond the reasonable needs of health and safety and extend their interference, in fact to violation of personal freedoms. The pending requirements for passive restraints (air bags) are an example.

If it is reasonable to condition any help to Chrysler on new management plans, which are thought of as being only part of the problem, is it not also reasonable to condition new help upon a

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commitment by government to remedy its part of the problem? And in the absence of any such commitment, will not the result be merely to throw good money after bad?

We have not chosen to discourse upon theories of free enterprise in these few remarks, although we do have strong feelings and concern about the direction new forms of federal intervention may forecast. We have chosen rather to raise some practical questions and try to point out to Congress that if it chooses to make a decision in the Chrysler case, we have a right to expect that it will have done so in the framework of having determined upon some long-range directions for all of industry - not just Chrysler - and upon the future tone of business/government relations - and to do both with complete awareness of the long-range consequences of its present determinations.

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STATEMENT

OF

JOHN W. FISHER

ON BEHALF OF

THE NATIONAL ASSOCIATION OF MANUFACTURERS

BEFORE THE

SUBCOMMITTEE ON ECONOMIC STABILIZATION

OF THE

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

U.S. HOUSE OF REPRESENTATIVES

OCTOBER 30, 1979

"EMERGENCY LOANS AND LOAN GUARANTEES TO THE CHRYSLER CORPORATION"

My name is John Fisher. I am Chairman of the Board and Chief Executive Officer of the Ball Corporation and Chairman of the Board of the National Association of Manufacturers. I am accompanied by R. H. Larry, President of the NAM. The NAM has approximately 12,000 corporate members, large and small, and The Chrysler Corporation is a member. Our member companies employ a majority of the country's industrial labor force and produce over 75% of the nation's manufactured goods.

INTRODUCTION

The NAM is opposed to federal government financial support for individual private enterprises unless the support is based on laws which have general applicability to comparable enterprises. Stated

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another way, this means that the Association's policies do not support special legislation intended to benefit a single company. Nevertheless, I am here today as a friend of the Chrysler Corporation and it is on their behalf as well as the future well-being of thousands of other manufacturers that NAM represents that I make the following remarks.

There are hundreds of businesses, many small and some large which are in similar, or nearly similar, circumstances to those faced by the Chrysler Corporation. The causes of these circumstances are complex and varied. Management decisions may very well be one -- just one -- of the contributing causes in some specific cases. As you know, the market-oriented economy has a way of disciplining such decisions. However, the market is not capable of distinguishing between voluntary management decisions which prove to be wrong and therefore uneconomic and those decisions which management is mandated to make by government and which prove to be uneconomic and wrong. Almost every single business in the United States shares this problem with the Chrysler Corporation and other financially troubled companies. Of all the problems facing our nation, this is one of the more serious because the public's long-term interest is being sacrificed for apparent short-term benefits.

In truth, the economic climate within which business operates is stormy and threatening. Too often, government economic policies seem to be adopted and enforced in a spirit of combativeness which views business as an antagonist to be eliminated. A lot of factors contribute to this condition, but clearly the laws and regulations passed by the U.S. Congress are important elements in setting the nation's economic climate.

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The National Association of Manufacturers believes there must be a new direction to national economic policy. I understand that this Committee has specific and limited responsibilities, but I would urge members, individually, to take the leadership in helping to set these new directions. We pledge our support and cooperation. NAM proposes the goal of new policies should be to create "a more productive society" with the emphasis on strengthening the nation's ability to produce.

The public interest is not being served by the current orientation. Double digit inflation, double digit prime interest rates, declining productivity, loss of competitiveness in world markets, recurring energy shortages and rapid price increases and the very real possibility of other shortages in the future are clear signs that present policies are not serving the nation well. We believe that attention must be focused on policies which affect our productive strength if the standard of living and the quality of life for all Americans are to resume an upward trend. Failure to do so will result in more hearings like this one involving other corporations.

In the past several years a host of business regulations have been enacted by the Congress. There have been at least 25 major pieces of regulatory legislation passed in the five years from 1974-1978. Most of them did not originate with this Committee. In one sense, many of these regulations are a form of taxation. The cost added by regulation is an expenditure made by the company as a condition of staying in business. The economic cost of the firm's compliance can be viewed as a receipt for taxes paid. After all, instead of requiring

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corporations to take certain actions, the government could have appropriated funds from the United States Treasury to gain its objectives. Since the economic costs of regulation act as a tax, the amount of funds available for improving the nation's productive capacity is falling and individual firms when faced with the costs of compliance cannot pass on to the consumer more of these costs than is permitted by the competitive conditions in their industry. Both of these circumstances are causing problems and they are likely to worsen.

SMALL BUSINESS IMPACT

The Congress has failed to understand that government regulations hit small businesses more severly than larger firms. Although regulatory requirements are applied uniformly to an industry they tend to alter the competitive structure of the industry because the cost of compliance falls disproportionately on the smaller firms in the industry. And the small business owners and managers know it. In a recent random sample of small business, three-fourths of the firms with sales under $1,000,000 annually viewed regulation and government paperwork as a major problem. Eighty-seven per cent of firms with sales above $3,000,000 felt the same way.

Although some 6,000 businesses went bankrupt last year, there is no record of the number which developed troubles or were forced out of business because of the burden of government regulation.

The problems faced by the larger companies should not be underestimated, but the fact is that the larger firms in every industry

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have an advantage, their unit costs are lower. Competition requires that each company's per unit charge which is added in an effort to recover the mandated production costs be approximately the same. Thus if the larger firm with a bigger volume charges its customers enough to recover its added costs and investment, the smaller firm in order to remain competitive cannot charge enough to recover its added costs. Federal regulations have been assumed to raise costs by a uniform percentage in each company. But due to differences in unit volume, this is incorrect. Regulation hurts the smaller firms more than the larger ones.

Absolute size is not as relevant as the relationship to a firm's competitors. The Chrysler Corporation's current circumstances provide an example. The automotive companies have provided the Department of Transportation with estimates of their fixed costs for complying with existing emissions, safety and fuel-economy standards for 1978-1985 period. The expenditures required are proportionately greater for Chrysler than for Ford or General Motors. The estimated costs of regulation are 60% higher per car for Chrysler than for Ford or General Motors.

COST OF AUTO REGULATION

Much of this problem began in 1966 when the design and manufacture of automobiles were made subject to regulation, primarily to increase automobile safety. In 1971, pollution became a primary concern leading to new laws requiring a 90% reduction in emissions.

The cost of the mandated safety and environmental control equipment on the typical 1978 passenger car was approximately $666. Over

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one-half of this amount, $352.94 per car, was the result of regulations undertaken in just the last five years.

The total direct cost to the consumer for the ten million cars sold in 1978 was $6.7 billion. Although this amount can't be dismissed lightly, even higher mandated costs are on the horizon. By 1985, the automobile industry is mandated to produce cars with a passive-restraint system and a fleet average of 27.5 miles per gallon while emitting nearly immeasureable amounts of pollution. These changes will require billions of dollars and add perhaps $1,000 or more additional cost to the average car in 1985.

It is no secret that 1979 saw a slump in new car sales. Perhaps this can be blamed on current economic conditions. But it should be pointed out that from 1976 to the 2nd quarter of 1979 the share of the market captured by imports grew from 14.9% to 23.7%, a gain of 8.8 percentage points in 2 1/2 years. While it is the responsibility of the automobile industry to provide the products desired by the American consumer surely Congress cannot escape the fact that the climate and rules for their operations have been set by Congress. These rules have added significant costs.

The industry is beset by pressures. It is in uncharted waters. Fundamental changes are perhaps in store. The industry can best respond to changed demands and world conditions if the government adopts a more cooperative stance.

OTHER RESULTS OF REGULATION

Excessive regulations impact on costs and prices in a variety of ways. One of the most serious of these is the loss of productivity.

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A Brookings Institution study estimated that productivity in 1975 was 1.4 per cent lower (than it would have been) due to the cost of meeting governmental pollution and job-safety requirements.

In some cases, loss of productivity is dramatic. In 1969, coal production averaged 19.9 tons per man per day. In 1976, the figure was 13.6 tons, a 32% decline. The basic explanation is the changes mandated by federal law.

Further, the cumulative results of excessive regulation can be expected to have serious consequences in the years ahead and not just on costs and prices. Government regulations affect the prospects for economic growth because the costs of regulation claim an increasing share of funds that should be available for new investments. Government mandated outlays for environmental and safety regulations claim almost 10 per cent of new capital formation. Thus, disruption of the basic business function--producing goods for the public--may in the long-term have more serious consequences than the measureable costs associated with regulation.

Expenditures for research and development and the rate of innovation are slowing down. The rate of increase in private sector R & D expenditures has declined sharply. The longer it takes for an innovation to be approved by a government agency and the more costly the approval process, the greater the likelihood the product will not be marketed. At the least, its availability will be delayed.

The business community is greatly concerned over the possibility that EPA clean air regulations will unreasonably restrict, if not stop, industrial development in parts of the country. The failure of a

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state to win EPA approval for its plan to control air pollutants will result in an absolute prohibition of any new industrial construction in that state.

TOTAL COST AND INCREMENTAL COSTS

It is difficult to determine the total cost of complying with government regulations. One source puts the figure as high as $150 billion. The highly respected Center for the Study of American Business at Washington University, using a conservative estimating procedure, has estimated compliance and administrative costs at $102.7 billion for 1979.

Unfortunately, we can't assume that the American public is getting $103 billion worth of benefit. For example, one firm was required to install "scrubbers" to reduce the emission of visible iron oxide dust. The scrubbers removed 21.2 pounds of dust per hour but producing the power to run the scrubbers' electric motor produced 23.0 pounds of other pollutants per hour.

This is not just one isolated failure of regulation to achieve a net benefit. Department of Labor statistics show that days lost per worker in industry due to serious job accidents and health hazards have risen consistently in recent years even while the government's regulatory activities in the workplace have been increasing. However, the total number of job-related injuries has been declining. It would appear that the Occupational Health and Safety Agency has been successful in reducing the minor accidents which cause little lost time with no impact at all on the frequency of more serious accidents.

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In 1976 the Dow Chemical Company estimated it cost the company $186 million to comply with federal regulations. $83 million or 45% of these costs were defined as beyond good scientific management, business or personnel practices or duplicative of other regulatory efforts.

The steel industry estimates that the engineering control charges to meet the noise standards by OSHA would cost $1.2 million for each affected worker. The industry says it can provide better protection for only $42 per employee.

The nation's air is getting cleaner. The basic problems have been solved or are solvable but some of the clean air standards have been picked out of the air. When you get down to removing the last little bit of pollutant, the cost sky-rockets. A prime example is the expenditure of $200 million a year in New York City to reduce the level of sulphur in fuel burned from 0.6 to 0.3 per cent. New York City's environmental administrator, Dr. Merril Eisenbud, says there is no evidence that the 0.3 per cent standard set by the government is any better for health.

Last year OSHA proposed regulations on carcinogens which assumed that there is no safe level of exposure to any carcinogen. It proposed to mandate the "lowest feasible exposure" without adequately considering costs and without undertaking studies which might show no adverse affects from low-level usage of some questionable substances.

Is it all worth the cost? Could not regulatory costs which are not effective be used elsewhere for greater public benefit? These are questions which the Congress should be addressing.

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The excessive zeal shown by agencies to eliminate every possible hazard no matter how small the benefit or how great the cost is or should be a matter of serious concern.

SUMMARY

Some of you may feel that business has its flaws. I agree and most business executives that I know would probably agree. But the American business system has demonstrated that it is the most effective vehicle for producing goods, creating jobs and increasing society's standard and quality of life. The business community is critical to the future of the nation.

So too is government. Although most businessmen want the least possible interference from government because of the flexibility and freedom necessary for a business to cope in a rapidly changing world environment, business leaders know that business needs government plus fair and reasonable government rules and policies.

Generally, it is not the goals of most regulations to which industry objects but the means which are used. It is for this reason that we believe that the public interest suffers when the cumulative effects of governmental policies raises prices of products unnecessarily, discourages innovation, reduces productivity gains, limits increases in real wage gains, restricts the private sectors' ability to generate savings sufficient to finance expansion for new jobs and required modernization to permit productivity increases. Under these conditions, there is an understandable tendency to look to that same government as the banker of last resort. But this in turn sets the stage for further government involvement ranging from outright nationalization to subsidization. It is a direction which world history has shown is

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fraught with danger. The public interest demands that it be avoided because the most likely consequences will be a reduction in the production of new and better products, a rise in costs and a drop or less rapid rise in the nation's standard of living. When government regulations interfere to this degree in the basic functioning of the economy, it is surely time to take corrective action. A big dose of governmental self-restraint is needed before irrepairable damage is done to the economy, our political structure and society.

It would be highly appropriate for the Congress to reexamine the time frame and the cost-effectiveness of the standards which existing legislation mandates that the automobile industry achieve by 1985.

NAM will in the near future detail some specific changes in existing laws and regulations and suggest other methods of creating a more productive society. If government and industry can move forward in harmony, the net effect will be a dramatic improvement in the quality of American life.

Thank you for this opportunity to share our views.

The CHAIRMAN. Thank you, sir, for a thoughtful and helpful statement, and for handling it so well. You abbreviated and we appreciate that because we are short of time.

Last year, Mr. Larry, as you know, over 6,000 firms failed. The year before, about 8,000 firms failed. The total liability last year were over $2.4 billion. There was no Government aid to those failing firms.

With a prospect of recession rising, and there are always more failures, and the failures could be more this coming year than certainly they were in the past, I take it your position is that the Government should not bail out these firms. They haven't done it in the past and we shouldn't do it in the future.

Is that right?

Mr. LARRY. That is quite my position. I am well aware, incidentally, as Mr. Iacocca said this morning, that there is not a clean record on the part of Government.

I know that there have been those of us in the steel industry who have been uncomfortable with some guarantees offered to some segments of the steel industry quite recently.

I know there have been some special treatments of small business.

But what we are calling upon the Government to do at this time is to look at the direction in which it is going. It is not going in the right direction if we hope to maintain a free economy. I don't know how we would distinguish, for example, the Chrysler situation from another aspect that used to be within my competence—the American-Bridge Division of U.S. Steel.

You have seen the notices in the newspapers and unless the union foregoes an increase, the plants will have to be closed.

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Those are significant numbers of people, too. So should we invite the Government to say, we don't want bridgebuilding, steel fabricating to be only from Japan and abroad; and subsidize it too, if they don't find their own solution.

The CHAIRMAN. Mr. Iacocca this morning spelled out a particular category of firms that might be bailed out. It seems to me that there is no place you can draw the line. If you're going to bail out one, it's very, very hard to avoid not bailing out firms that are smaller, larger, whatever.

Mr. LARRY. I agree with that, sir. And what I am really asking for is a very thorough reexamination of how far we have come already.

I think it is a very uncomfortable distance if what we hope to maintain over the next several decades is really a free economy.

The CHAIRMAN. Some people have argued that we already have a tremendous amount of loan guarantees outstanding. $425 billion is one estimate of the number we have. We don't even know how many, they are so enormous.

They argue that another $1.5 billion for Chrysler would have little effect.

The implication is, number one, that these loan guarantees are all right, which I don't agree with. But number two, that a bail-out is the same thing as the rest of these guarantees.

Would you comment on that?

Mr. LARRY. I am not sufficiently familiar with all of the rest of the guarantees. I do know that probably some of those guarantees relate to what I might call political risks, when our manufacturers in this country are invited to do business in foreign countries, where there is some question as to whether there is an ability to recover either the investment, or recover the payment for the goods shipped.

I am inclined to believe that that kind of a thing is quite a different thing. I am not so sure that the arrangements with respect to smaller businesses are. I think we have to recognize that business in the United States is really ultimately all one thing—it is large business, small business, medium-size business, and all around.

What we need to do, sir, is be concentrating on the climate for business, as I tried to emphasize in the opening comments that I made, trying to recognize that as the Japanese have done for the last several decades when they have tended to overtake us economically, they have recognized that business is pretty important to their economic future.

BUSINESS AND PEOPLE ARE THE SAME

We have maintained an attitude of somewhat antipathy, the suspicion that if something is done for business, it must be against the interest of the people.

And that is so wrong, as this particular instance demonstrates more eloquently than most. Business and people are the same. They truly are the same.

What we need is a new climate. We don't need more aspects of the guarantees, sir.

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The CHAIRMAN. Now, wouldn't the effect of a bail-out for Chrysler, a $1.5 billion guarantee, be to take funds that are limited now, particularly we are aware of that with high interest rates and with tight credit, to, in effect, allocate credit to this corporation and at a risk-free basis, that should go elsewhere.

And wouldn't a precedent be particularly significant in view of the fact that then the bankers could assume that any large company isn't going to fail. Therefore, they don't have to be as concerned as they would otherwise be about a losing company insist that it straighten up and fly right before they provided funds, insist they cut their costs, insist that they eliminate their losers, insist that they take other painful steps that are necessary before they provide credit.

With a big company that will be bailed out, they don't have that kind of concern. So don't we lose a great deal of discipline in our system?

Mr. LARRY. I am concerned that we lose a great deal of discipline. The market is a stern task master. It does make people shape up.

But before I turn the whole thing loose on the market, I would like to turn Government out of the market to some of the extent to which it is presently involved.

And Mr. Iacocca mentioned some of those aspects very pungently and pertinently this morning. There certainly are a number of avenues of Government intervention now which add immeasurably to the cost which ought to be discontinued.

I don't want to try to repeat them all, but when he depicted the size of the pile of paper which he had to put forth, when he described the problem of the passive restraints, (and I hope I never have to drive a car which has one) and when he described some of the other aspects which have been imposed on the auto industry and which fall particularly hard on him, why can't the government look at that——

The CHAIRMAN. Mr. Larry——

Mr. LARRY. Rather than getting in deeper——

The CHAIRMAN. You made a strong appeal. You said it in your statement and you have said it in answer to your questions that you think we need less government and the Government shouldn't be so intrusive.

Isn't the effect of this kind of a bail-out in which the Government reserves the right to change management, the Government reserves the right to second-guess them on the kind of product they ought to sell, isn't this the most conspicuous and grossest type of interference of Government?

And if we move in under the circumstances, isn't it clear that there will be more intrusion by Government?

Mr. LARRY. Mr. Chairman, I looked this morning in the Wall Street Journal at what machinations seem to be occurring over on the House side even as you are considering this matter here.

I was utterly appalled to read and to try to understand, and I did so without comprehension, some of what seems to be the brainchilds of Henry Reuss at the moment. It involves Government intervention in the most infinitesimal ways. And what it suggests

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is that once you take a step, then there is no retreating. There is a second step, a third step, a fourth step, and a fifth step.

We have had enough.

The CHAIRMAN. Thank you. I have to go over to vote. Senator Heinz will take charge of the committee.

Senator HEINZ. Permanently, if you would like, Mr. Chairman.

The CHAIRMAN. You have to wait until 1981 for that. [Laughter.]

Mr. LARRY. As a former Pennsylvanian, I am not opposed to that.

Senator HEINZ. I want to compliment you on your testimony. Are you for or against the loan guarantee?

Mr. LARRY. I have a great reluctance about the loan guarantee. But what I have been trying to point out, Senator, along the way of my earlier comments, is that I hope, whatever is the outcome of this development—and I recognize, as has been pointed out earlier, there are very strong human and political pressures one way and another. But they will all have been tilting at the wrong windmill unless two things happen.

One is to recognize that what we are finding is pigeons coming home to roost because of several decades of political and other kinds of antipathy against businesses and institutions, a feeling that somehow profit makes business dirty, that somehow business therefore cannot be interested in the people, and that its interest is different from the people's.

And what I'm trying to emphasize is that all of a sudden in this Chrysler case politicians of all stripes discover that businesses are indeed people, and that is why the concern for it.

And second, if that could be recognized, even as we have seen it, frankly, in the industrial economies of Japan and Germany, a forward step would have been made no matter what the result of this particular instance.

And, third, we have seen every proposal thus far suggesting that what is needed is first a new plan on behalf of the management of Chrysler. I have read everything that I think Mr. Iacocca and his associates have written. It is very substantial and very well-done, and it always keeps pointing out that the significant part of their problem, admitting perhaps some responsibility on management, is an overdoing of the regulatory process.

I simply say that if Congress, in its wisdom, is going to do any such thing as support the Chrysler request, and if it is going to condition it on the basis of a new management plan, it had better well look at the next step and have a plan on the part of Government as a precondition to what it is going to do about the regulatory process. Because unless it does, if you take Chrysler at its own word, any money you put in is going to go down the drain. It is going to be good money following bad.

I admit that creates time problems. But these are points of great substance, sir.

PECULIAR SCHIZOPHRENIA

Senator HEINZ. I think those points are well taken. I don't know if you see it as I do. But there is an absolutely peculiar schizophrenia that I see on the part of many of my colleagues. On the one hand, you have people in the Administration and many people

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down here on Capitol Hill, a majority of them, who keep saying how important it is to put more and more regulatory sticks and stuff and pieces of straw on the back of the camel of the American enterprise system; and how, as you correctly put it, how evil it is to earn a profit; how we ought to raise the taxes and raise the social security employer taxes, raise the corporate taxes, and do away with the investment tax credits and not have the accelerated depreciation range, and all of these things that you have heard, I know, many times over.

It is ironic—and this is the schizophrenia—that when, as a result of Government insensitivity and regulatory excess, something that strikes home, like in Michigan, that the same people who have been a part of the problem say: "Well, it is really time for a specific solution to solve our particular problem in our particular city or state."

Do you have any observations or cures for the schizophrenia?

Mr. LARRY. I think we have to be honest there. Schizophrenia has prevailed in Republican and Democratic administrations both, and in a Domocratically dominated Congress. There is a great tendency of the people in this country to believe, somehow, that people, when they leave the private sector and enter Government, become super-human beings and become endowed with super wisdom and instinct and therefore no longer make mistakes when they undertake to make decisions which affect the economy and the country. Unfortunately, the record doesn't quite justify that—or fortunately, may I say.

Otherwise, we would move in that way completely.

There is a schizophrenia. I guess another way of saying it is that life is always full of tensions. It always will be, always should be. And there will be some of us pushing one way and some pushing another. I just hope we push ultimately in a direction which makes those—and this gets to sound a little poetic, perhaps—makes those who founded our country on a belief that the ultimate basis of it was private ownership and the ability to use private property in the public good, will somehow survive.

Because we seem to be moving more and more in a direction of making the values of private property virtually useless, by the overlay of one more and one more and one more layer of regulation.

Senator HEINZ. Let me ask you something specific about the Administration plan.

Mr. LARRY. I am lost on that, incidentally, because I am not quite sure where it is right now and what is in it.

Senator HEINZ. It is before this committee the same as you.

Mr. LARRY. I haven't had a chance to read it, as you have.

Senator HEINZ. It is very brief. It says, for $1.5 billion, we will give—we will take total control over your lives; and then proceeds not to say exactly how they are going to do so.

Whether you are for or against the idea of a loan guarantee, it seems to me, is secondary to getting your views on the basic principle, and that is who should bear the greatest burden and responsibility for making the best of a bad situation. There are several choices, not mutually exclusive: employees, creditors, shareholders, to name only a few.

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As far as this committee has been able to tell, the employees are going to be the first and perhaps only people to suffer. They will be laid off. The creditors will be asked to give up nothing. The shareholders will have an opportunity to reap, according to Mr. Iacocca's own testimony, an increase in the price of their stock from $7 to $18 by—in just 2 years, which sounds like a pretty good deal.

And the little guys get laid off, and the shareholders contribute nothing to the solution of the problem except to cash in their coupons.

My question to you is: Shouldn't the shareholders be asked? Shouldn't equity financing be part of the solution here once we, as I am sure the Congress will, whether or not I go for it, grant $1.5 billion in loan guarantees? Don't the shareholders have a responsibility to participate in the solution, or should they just get a free ride, like the Administration proposes?

Mr. LARRY. Frankly, I see no reason why there should be Government support of credit here unless and until there has been a great breakdown in the value of debtholders, equityholders, and a considerably greater degree of support for the effort on the part of the employees than I have yet seen in what little I know about the Chrysler settlement.

Senator HEINZ. Would it not seem reasonable to you that we should structure into this legislation the following test. The test is that, subsequent to passage of legislation with $1.5 billion of the taxpayers' money in it for Chrysler, that before all of those guarantees are in fact by the Treasury Department released, that we subject the entire proposition to what I would call a marketplace test, which is the willingness of those creditors or the willingness of investors to put in, in the case of investors, more money; in the case of creditors, some subordination or dimunition of their claims; or, alternatively, to increase the amount of credit to Chrysler, thereby minimizing the risk to the Federal Government.

Mr. LARRY. What you suppose, Senator, is an ongoing effort very similar to what would occur if you were going to reorganize under an arrangement under Chapter 11. But I am uncomfortable with the idea that we ask taxpayers like me to become an involuntary potential investor at a moment, at this point, when I do not believe that those who have either lent money or invested money on an equity basis have faced up to what may be their duty, and also the employees.

Senator HEINZ. Do you think we should write into this legislation——

Mr. LARRY. You want a commitment to the assumption that you would have passed the bill. That is an uncomfortable assumption.

Senator HEINZ. I am not trying to commit you to that assumption. I am not wedded to that assumption. I am simply saying, as a matter of hypothetical speculation——

Mr. LARRY. If Congress is going to do it, there ought to be something like that, indeed.

Senator HEINZ. It ought to be written in as a requirement in the legislation. Thank you.

Senator GARN. Senator Riegle?

Senator RIEGLE. Let me say at the outset to Senator Heinz, if I may, that I was listening very carefully to the colloquy earlier

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today between Senator Heinz and Mr. Iacocca, and maybe I didn't hear it correctly. I thought you just said that he had indicated affirmatively that he could see the price of the stock going to 18. I remember him saying that he was unwilling to make any judgment as to what it might go to.

Senator HEINZ. If the Senator would yield, I would be happy to recollect to the best of my ability what Mr. Iacocca said. I asked him what he would imagine would be the price of Chrysler stock at the end of 1981, when it became clear that Chrysler was meeting its projection and would meet the $6 a share.

He said, well, I would guess that about a three times earnings ratio would not be unreasonable, and that $18 would be a likely price.

Subsequent to that, he realized he had made a terrible mistake, because he realized that $18 divided by 2 is $9, and $9 is more than $7, and that meant that you could insist on an offering equal to the number of shares outstanding and people would still come out ahead. He therefore decided, if you want my judgment, that it was not in his best interest to further estimate the price of Chrysler's stock.

It does strike me as ludicrous that a Secretary of the Treasury with Mr. Miller's background, a man of Mr. Iacocca's considerable background, when presenting a picture of earnings improvement of $6, $8, and $10 a share in 1981, 1982, and 1983, is totally unwilling to make any guesstimate of the range of the stock price. I think he weakened his testimony considerably in that regard.

Senator RIEGLE. Let me just say—neither of us can settle it now, because we are both working from recollections. But my recollection is different. We will have a hearing record in the morning and we can then see.

All I want to do is, rather than have that assertion be made a part of the record that we will let the record tomorrow clarify it.

Now, let me ask you, do you think that—you make a very important point, I think, about your belief that Government regulation that mandate continued spending at a time when Chrysler is short of cash in your judgment is a large part of their problem.

Mr. LARRY. They have said so, sir.

Senator RIEGLE. You agree with that?

Mr. LARRY. I believe so, indeed I do.

Senator RIEGLE. Let me go from there. Under those circumstances, the fact that, in your judgment at least, they have been saddled with that burden and it has contributed, in your judgment, substantially to their problem. Now we are faced with the possibility of imminent collapse.

Mr. LARRY. You ought not to ignore that, Senator. Fix it and fix it fast. And then the possibility of imminent collapse wouldn't be nearly so near.

Senator RIEGLE. I beg your pardon?

Mr. LARRY. I am not ready to buy the possibility of imminent collapse if you set about to fix those problems promptly.

Senator RIEGLE. Let me ask you this——

Mr. LARRY. After all, the environmentalists——

Senator RIEGLE. I know. I am clear on your point in that regard.

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Here is the problem that we face. A number of expert witnesses, outside investment banking personnel, other financial analysts of the Treasury Department, they have all looked at this thing, including, by the way, people who are already involved in the Chrysler situation in terms of debt positions, and they come to the conclusion that a collapse could occur very soon.

Let's say they are correct, and that is the body of expert opinion that is taking a look at it and that is their response to us. Let's just suppose for the moment that they are right. Would it be your view that if that is correct, that we would be best served by letting Chrysler collapse?

Mr. LARRY. Let me say that any assumption of a disappearance of Chrysler and relating that to some kind of a financial default are two different things in my mind. I do not consider that the fact that Chrysler might have to go or that to seriously consider Chapter 11 means the end of Chrysler.

Senator RIEGLE. Fine. But there we have some expert opinion to rely on.

Mr. LARRY. I admit mine is not expert.

Senator RIEGLE. Let me tell you what we have learned in that regard. I think it is something you will want to consider. We had three bankruptcy experts here. One of the three was acknowledged by the other two to be the preeminent practitioner of having conducted these reorganizations in bankruptcy for the last 20 years.

His testimony to the committee was that if Chrysler goes into bankrutpcy, it not only will finish the company, but could also be in the courts for as long as 5 years, because of the enormous compexity of the operation. Now, if you were to study that testimony and decide that he was correct, would you then be inclined to feel that the Government ought to respond to forestall that?

OTHER SOLUTION

Mr. LARRY. I would still feel that there are ways to get at the problem other than Government intervention.

Senator RIEGLE. Let's hold that off for a minute. If you were to find that we were actually looking at a liquidation situation.

Mr. LARRY. Let me say at that point, if you are feeling for emotions for people, why is it different than W. T. Grant? Why is it different than Food Fair? Why is it different from——

Senator RIEGLE. You may not feel it is any different. All I would like is for you to express yourself, express a judgment. If that is what it comes down to, a collapse that is the worst case type of collapse, do you still think that that is best for the country, that we should go ahead and take that dose of medicine rather than respond with loan guarantees?

Mr. LARRY. I am unwilling to assume the worst case, that that is the only way out, is a total collapse, because, look, you got debtors all over the place that got all kinds of debts. You got equityholders. Many cases exist throughout the country where voluntarily they write those obligations down.

Senator RIEGLE. Let me make it easier. You have said all that. Do you favor the bankruptcy route? Is that your testimony?

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Mr. LARRY. I don't know why we can't have the Government use some leverage on the equity holders and the debtors, get them to do it voluntarily.

Senator RIEGLE. Here is the problem. As I listen to your testimony, you really don't want to be pulled into a posture of saying you support the collapse of Chrysler. I can sympathize with you. It would be very bad news for the country and for the free enterprise system.

Mr. LARRY. As a general proposition, I don't have any question at all of endorsing the fundamental premise that we have to win some and lose some, and the fact that size does not justify making a departure from allowing that to happen.

Senator RIEGLE. Now let's apply that to this situation: So you are prepared to accept a Chrysler bankruptcy in this situation if it has to come to that?

Mr. LARRY. If it has to come to that. And I don't think it does.

Senator RIEGLE. And again, how do we avoid that? That is what we are here to do, is to try to avoid it. You say you would like to avoid the bankruptcy.

Mr. LARRY. The way you can start, you know, this morning Mr. Iacocca put a whole list of things that you had done——

Senator RIEGLE. We can't undo those now.

Mr. LARRY. Why can't you?

Senator RIEGLE. Because the money has been spent.

Mr. LARRY. Wait a minute. There is a whole list of the kinds of exceptions and delays made for American Motors with respect to compliance with DOT and other things. You can do that.

Senator RIEGLE. It's too late for that.

Mr. LARRY. You don't have to go forward with the air bags, for example. There are lots of things you can do.

Senator RIEGLE. You are not being practical, if I may say so. The best experts have said that they probably have got 6, 8, 10, or 12 weeks to remain in business unless there is a massive restructuring of the picture. You may not want to believe that.

Mr. LARRY. That was said 6 or 10 weeks ago, also.

Senator RIEGLE. I beg your pardon. I didn't hear it at that time. I have been paying close attention to it.

It seems to me that you want the best of both worlds. In other words, you want a solution that fits within your philosophy. That is no longer practical.

Mr. LARRY. That kind of a solution you tell me is not practical——

Senator RIEGLE. The experts have told us that. If there had been a single expert in here that would tell us how to do that, you would have a lot of buyers.

Mr. LARRY. Why did Chrysler then suggest that it would?

Senator RIEGLE. I beg your pardon?

Mr. LARRY. That there were things that government could do that would help in the problem?

Senator RIEGLE. Chrysler's submission is very clear, and that is that without the loan guarantees they are absolutely at the wall, and, at this stage of the game, the cash flow requirements that pile up from a number of sources is such that without this help they will not be able to survive. That is their submission.

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Mr. LARRY. There seems to be very little justification for adding another $1.3 billion to their payroll costs.

Senator RIEGLE. That is your view. I happen not to share it. I think it is regrettable that you take that view.

FOREIGN TAKEOVER OF DEALER NETWORK

Let me just conclude with one other thought because this will be something you can ponder in your spare time. And that is that Lee Iacocca indicated today that the foreign share of the American automobile market is now up to 25 percent. It is the second-biggest deficit item in our balance-of-payments. It is eroding the value of the dollar, and increasing the inflation rate. What he said was that if they go into bankruptcy that the dealer network, which is the one thing that the Japanese and the Germans have not been able to develop and which they would love to have handed to them as a gift, would suddenly, be handed to them. And it is very likely that their market penetration will go from 25 percent to a much higher figure because they are positioned with models that are in high demand.

It troubles me that somebody representing the business community would take such a short view of the financial and economic impact to the country, to be willing to turn those resources over to foreign competitors at a time when the United States desperately needs to strengthen itself. I think it is a basic inconsistency in the position that you take, and it is one that worries me greatly.

Mr. LARRY. Senator, it troubles me that Congress, the Senate and the House, now suddenly are greatly concerned about what might or might not enable American business to compete with foreign sources. Having come from the steel industry and been there for 40 years before I took up this present job, I am aware of the years in which foreign governments were deeply involved in subsidizing their shipments into this country, particularly Detroit. And we, incidentally, at times tried to persuade some manufacturers cars in Detroit that it was useful to support the American steel industry—without success.

But what we need, Senator, is not to look at this thing as one thing only. What you need to do is go back and ask yourself what has this Nation of ours been doing to the industrial capacity to compete in world markets? And what Congress has done——

Senator RIEGLE. We would agree on that point.

Mr. LARRY. What Congress has done to disable it has been very considerable. If you go through this exercise and do not give serious consideration to that, you will have committed the worst of all blunders on behalf of the future of our country for the next couple of decades.

Senator RIEGLE. We agree on that. We have no disagreement on that point. It is the question as to whether we have to take this enormous self-inflicted wound at this time in order to have to realize the other points.

Mr. LARRY. Let me say—I just have to figure out what I am going to say. You told me to tell many of our members who are not quite so enormous and will face similar problems. What am I

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supposed to tell them when they say, "Shall we come to Congress and ask Senator Riegle for help?"

Senator RIEGLE. There are 20,000 suppliers to Chrysler, and many of them are very small. You know that.

Mr. LARRY. I know that. I do, indeed.

The CHAIRMAN. Senator Kassebaum.

Senator KASSEBAUM. No questions.

The CHAIRMAN. Senator Garn.

Senator GARN. No questions.

The CHAIRMAN. Thank you, Mr. Larry, for a most impressive appearance.

Our final witnesses we will ask to come forward as a panel: Mr. Chuck Swift, Mr. Arnold Parrish, Mr. William Walsh, Mr. Robert Stepp, and Mr. Dan Burns.

STATEMENTS OF CHUCK SWIFT, CHUCK SWIFT DODGE; ROBERT PARRISH, PARRISH MOTOR CO.; WILLIAM J. WALSH, SIERRA MOTORS, INC.; AND ROBERT L. STEPP

The CHAIRMAN. I ask all of the witnesses, if they would, to come forward. We have four witnesses, and I gave five names. So you gentlemen are going to have to identify yourselves. Will you go across and identify yourselves?

Mr. SWIFT. I am Chuck Swift.

Mr. STEPP. I am from Wisconsin.

Mr. WALSH. I am from Illinois.

Mr. PARRISH. I am from Kansas.

The CHAIRMAN. Gentlemen, we appreciate your appearance. I am going to go a little out of line to say that Mr. Stepp is a constituent of mine. He is a present—former president, I should say, of Jack White Ford, which is the biggest Ford dealer in the State of Wisconsin. Mr. Stepp speaks with special and very painful experience because he, as I understand it, went through the process of bankruptcy. Is that right?

Mr. STEPP. Near bankruptcy. We sold at the last minute.

The CHAIRMAN. I think probably the thing to do is to go down the list as we have it here, in order. We will start off with Mr. Swift.

Gentlemen, if you would confine your remarks to 6 or 7 minutes, we would appreciate it. If you have to go longer, that is fine. But if you would do that, it would help us, and we would like to have—we will have your statements printed in full in the record.

[The complete statements of Messrs. Swift, Parrish, Walsh, and Stepp follow:]

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TESTIMONY OF CHARLES O. SWIFT,

SWIFT DODGE - SACRAMENTO, CALIFORNIA

BEFORE THE

COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS,

UNITED STATES SENATE

Mr. Chairman and subcommittee members. My name is Chuck Swift. I am the owner of Swift Dodge located in Sacramento, California. I have been in the retail automobile business for the past 33 years, 17 of those years selling Ford products and 14 years in Sacramento as a Dodge dealer. Nine of the past ten years, my dealership has been the largest volume Chrysler dealership in the United States. In addition to Swift Dodge, I own or control three additional Dodge or Chrysler dealerships in California and Nevada.

I am a member and have served as Chairman of several new car dealer associations, and I served as Chairman of the National Dodge Dealer Council in 1974-1975.

I am providing you with all of this information only to try to convince you that I am knowledgeable about the retail automobile marketplace.

In an effort to point out to you the impact of a Chrysler failure on my community and our state, I will use only the statistics for Swift Dodge in Sacramento. Swift Dodge has at

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the present time 138 employees; at the same period last year we employed 187. Some of the other Swift Dodge statistical figures for 1978 are as follows:

total sales:	$37,500,000
state sales tax collected:	360,000
state and federal corp. income taxes:	165,000
payroll	2,900,000
company and employee social security and withholding tax contributions:	901,000
local property taxes paid:	48,000

Even just our one dealership's closing could have an impact on over 500 people (our employees and their families) plus at least that number among our suppliers and subcontractors. This would have a significant impact on our local economy, and that would be multiplied several dozen times in California alone if Chrysler failed.

Many of our employees are highly skilled in the sales and service of Chrysler products, and although most of them could be retrained and find other jobs, there would be a substantial period of time of family disruption, including loss of income and subsequent cost to the state and federal governments for unemployment insurance and welfare for an indefinite period of time.

A Chrysler shutdown would have a particularly adverse impact on dealers in California since our state has a law that prohibits the issuance of a new car or truck franchise in any

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area that is within a ten-mile radius of a dealer of the same make. Therefore almost every large metropolitan area Dodge or Chrysler dealer would be denied the opportunity to secure another franchise by reason of this regulation (and certainly, Swift Dodge would not need 18 acres and 100 services stalls to operate as a used car outlet!).

I want to backtrack at this point and try to give you some perspective on just how suddenly Chrysler's problems came upon them this year. The California gasoline shortages created an immediate dislocation in the retail marketplace. Before the gasoline shortages and the sudden customer reactions they produced, Toyota, Datsun, Ford, and yes, Dodge and Chrysler-Plymouth dealers, were all still struggling to unload their carryover 1978 models of subcompact, high-gas-mileage cars that had been a glut on the market. At the same time, Dodge dealers sold more vans in California than Ford and Chevrolet dealers combined. We were also sales leaders in the four-wheel-drive and recreational vehicle segment of the retail market. Those sales simply collapsed and our normal 60-day supply of new vehicles became, temporarily, a 60-year supply! And even today, this segment of the market has not improved a great deal.

Since Chrysler's California dealers represent 10% of total Chrysler sales, and a much higher ratio of the profitable van, R.V., and truck sales, Chrysler's strength in the marketplace vanished overnight in California. As the gas scare spread to Washington and other parts of the country in June, Chrysler felt a severe national effect.

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Today our California Dodge and Chrysler-Plymouth dealers must rely primarily on profits generated from the sales of Mitsubishi imports (and that potential is now threatened by the termination of the Japanese letters of credit financing those imports) and the Omni/Horizon domestic subcompact model whose production is limited by a shortage of engines (and which has been almost non-existent in California for several months this year because of California emission control requirements).

Adding to the above problems for these dealers are the extremely high money costs for inventory and capital loans, the impact of our current inflation rates and all-time high interest rates for buyers, the hesitancy of today's new car or truck buyer to purchase a Chrysler product given the almost daily dose of discouraging news about Chrysler, and last but not least, the effects of the current economic recession, which may not be real in some economists' minds, but is certainly real for automobile dealers!

Our final element of pending disaster for the dealers and their employees, and something that hasn't received much comment, is the growing losses dealers are suffering from repossessions. California and many other parts of the United States are "recourse" markets where the dealer must repurchase repossessed vehicles and pay off any unpaid balance to the financing institution, usually at a substantial loss to the dealer. Many 1977-78 buyers are looking at the higher cost of gas, the fact that they did not buy an economy car, and their loss of purchasing power and saying to

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the dealers "here--you take it back--it's all yours!!" The problem is getting worse because of uncertainties over Chrysler's future. As an indication, Swift Dodge's total losses on repossessions for 1977 were $55,000. We are approaching three times that figure ($138,000) for the first nine months of 1979; and in October, our repossession losses were an additional $33,000. In other words, our October repossessions were more than 600% above the average monthly amount for 1977. The announcement of a Chrysler bankruptcy would increase this already horrendous problem dramatically.

For some of our California Chrysler dealers, it is already too late even today to avoid business failure. If a government loan guarantee plan is not approved before year's end, I believe you can expect many more of the dealerships to close by mid-1980.

The administration has stated, "All parties must make sacrifices." I can tell you the dealers have made tremendous sacrifices this year in an effort to help Chrysler and have committed once again in October to buy vehicles they don't need in inventory for the months of November and December to help keep Chrysler plants in production. The dealers purchased additional cars last March and April to help; they added their own money to the factory rebates; most of them have increased their advertising budgets; and the majority have operated at little or no profit, or at a loss for 1979. An example of the sacrifices that have been made by the dealers is that the 220 California dealers' cash position

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has deteriorated by over 50% in the past year, and in the majority of instances, their net worth has decreased. These dealers have continued to do more than their share, but each day that passes without a committment to Chrysler continues to drain their current resources, and further decreases their ability to help Chrysler from a financial standpoint.

So please, from a strong advocate of free enterprise-- I ask you to help Chrysler through the current difficult period of time. I have seen their future products, met and talked with their new management, and firmly believe that given the opportunity, they will succeed, and you will have saved the United States government and taxpayers a lot of money. A loan guarantee program would cost the government nothing, would preserve thousands of small independent businesses in every state and many more thousands of jobs for their employees.

Members of the Committee, thank you for listening. I will be happy to answer any questions you may have.

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Testimony of Robert A. Parrish, President
Parrish Motor Company, Great Bend, Kansas

I am Robert A. Parrish, President of the Parrish Motor Company located in Great Bend, Kansas. Great Bend is a city of 21,000 located in West Central Kansas. Our Dodge dealership has been in operation since 1935. The third generation of our family is now employed by our company, and as of next spring I will have been with the dealership for 30 years. I am past president of the Kansas Motor Car Dealers Association and presently am the State of Kansas 1980 nominee for the Time Magazine Quality Dealer Award. Our dealership has twelve employees and we sell about 140 new cars and trucks a year. What would best describe us is that we are small, yet we are representative of many of the car dealers in the country.

When you get to thinking about it, the small independent businessman plays a big part in this country's transportation system. There are 17 million Chrysler owners running around the country and if your transportation breaks down in Podunk Center a Chrysler dealer is there to get you back on the road.

We must admit that in this vast country the automobile and truck dealer in many places is the only economical provider of transportation for the people. We are discussing today whether the Chrysler-Plymouth and Dodge dealers will continue to be part of the transportation system in the United States. It has been surprising to me the attitude that our customers have in the light of all the public comment about Chrysler. Our customers still say we sell the best, safest and most fuel efficient cars and

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trucks, and there's no doubt in their minds that Chrysler will survive and prosper. Even my conservative owners feel the federal government should aid Chrysler because there is no reasonable alternative. The reason that I am here today is to suggest that loan guarantees are indeed a better solution than the alternatives available.

One alternative some people have suggested is that Chrysler reorganize under chapter 11 into some smaller form. Chrysler is cutting back already to three families of cars, including basic subcompact, compact, and full-sized bodies. That's about as far as they can go. There will continue to be a demand for cars that can hold five and six people, as well as for the smaller sizes. In our part of the country this year we sold 14% standard size cars (about half of these were police cruisers; we sold 26% intermediates, 12% specialty, 22% compacts, and 26% subcompacts. Our customers have widely different transportation requirements because of distance, family size, use and climate. For our dealership to survive we must meet these customers' needs with a variety of products.

Another problem with a formal bankruptcy is the local credit situation with the dealers. Many small dealers have their dealership properties financed with their hometown banks, and these banks more frequently make capital operating loans and finance the dealer inventory and the retail paper with recourse. Small

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banks realize the importance of the dealerships to their communities and have been generous in their support, but there is a time when they decide that their depositors and stockholders might be put in jeopardy. As the question is asked "Will Chrysler survive?", and as the public discussion continues, lenders are already beginning to get a little nervous. They need assurance that the dealerships--and Chrysler Corporation--will continue to exist.

People have said that Chrysler's problems have been brought on by bad management, and I believe there is some truth to that. But now Chrysler's management has changed, and I can already see the difference. In years gone by, presidents, vice-presidents and sales managers would come and go and you could not really see much change. The engineering was always good (our products have had fewer safety recalls than either Ford or GM), but the styling and merchandising were up and down. I have spent many years on area dealer councils and advertising associations and one year was like the next. But last February, Mr. Iacocca called a meeting of the dealer body, and things have not been the same since. The top management has completely changed since that meeting and a number of improvements have been visible to dealers. The sales bank has been eliminated, the new car and truck ordering system is in place, product quality has improved, and Chrysler's management is improving communications with the dealers. In all my experience, I do not remember any time when the dealers have had such confidence in management.

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So there is some truth to the notion that management has made some mistakes. I understand that, and I can assure you that we dealers were hollering long before anybody else. But those mistakes are behind us now. What I cannot understand is the criticism of Chrysler by people saying "Chrysler insisted on building big cars nobody wanted". Our strength over the years has always been with the small cars such as Coronet, Dodge Dart, and Aspen. GM and Ford have dominated the big car market. We have been selling the fuel-efficient Omni front-wheel drive for over a year and a half and as the ad says "the competition is still on the drawing board". In 1979, 69 percent of Chrysler sales were small cars (compact or subcompact). This was more than double GM's percentage (32%). And this percentage will increase next fall when Chrysler's front-wheel-drive compact "K" car is introduced.

Obviously, things are not going well in the automobile business. GM had an operating loss in the last quarter and Ford had a North American operating loss in the same quarter.
No one foresaw the gasoline lines that could change buyer's habits, or double-digit inflation, or a credit crunch that would take buyers out of the market. Chrysler has done the planning to meet the regulations for safety, economy and emission control. Meeting these regulations has been expensive, and the expense has fallen hardest on the smallest, but you already know it. As a dealer, I knew we were in for rough time in the industry several years ago. The cost of product development was going to be

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tremendous. I could see that everything would have to work just right. I did not see a gas line, double-digit inflation, or fifteen and three quarter percent interest, and I certainly did not expect to be sitting here asking for your support of loan guarantee for Chrysler Corporation and preparing to answer your questions.

Members of the committee, Chrysler's new management is in place, the product plans are on schedule, and the dealers are ready. My customers have shown confidence in Chrysler over the past several months by continuing to buy the Chrysler products I sell. I share that confidence. It is too bad our credit is not as good as our credibility. I hope you will be understanding in your consideration of Chrysler's request for government assistance, so that we can continue to serve our customers as we have for so many years in the past.

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TESTIMONY OF BILL WALSH, OTTAWA, ILLINOIS, BEFORE THE SENATE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

Mr. Chairman and Members of the Committee:

I am Bill Walsh, a second-generation Chrysler Corporation dealer. I own Dodge agencies in Ottawa and LaSalle-Peru, Illinois. These towns are farming-industrial communities of twenty thousand population each, located approximately ninety miles southwest of Chicago on Interstate 80. I have been a member of the Dodge Dealer Advisory Conference for ten years, and am now serving on the Executive Committee of the National Advisory Conference. In my official capacity I represent dealers serviced by the Chicago Zone Office and the states of Illinois, Iowa, Indiana, and Wisconsin. I feel, however, that my concerns are typical of those shared by Chrysler Corporation dealers around the country, and that I speak for the great majority of them.

My dealerships employ fifty people representing a yearly payroll of over $700,000. Annually my employees generate withholding taxes of $107,000 and social security taxes of $90,000. The dealerships have annual sales of approximately $7,000,000, generating Illinois sales taxes of $250,000. Our yearly purchases from suppliers other than Chrysler Corporation total over $600,000.

In my fifteen years as a dealer, I have been responsible for the sale of over twelve thousand vehicles. The 253 dealers in Illinois alone employ approximately 6,000 people. These are 6,000 employees in addition to the 5,400 Chrysler Corporation employees in Illinois and the employees of the 1,468 Illinois suppliers

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to Chrysler. Nationally the total Chrysler Corporation supplier and dealer employment is over half a million taxpayers.

As a small businessman, I have come here at my own expense to convey the feelings of the dealers to this committee. If Chrysler is not granted the loan guarantee from the Federal Government, and would therefore be forced into bankruptcy, the economic ramifications would be disastrous, resulting in numerous losses in employment, not only at the manufacturing level, but at the supplier and dealer level as well. Even if an eventual reorganization were to be effected, the restructuring of consumer confidence for future sales would be a monumental task. Regaining Chrysler's current market share would take years, if it could be achieved at all. High-dollar, durable-good purchases require consumer confidence not only in the manufacturer's product but in the dealership at the retail level. In a community, the local dealer is synonymous with Chrysler Corporation. Chrysler's bankruptcy would be tantamount to our bankruptcy in the eyes of much of the population, and would result not only in loss of sales, but also in credit limitations at the retail level by financial institutions. The final product would be an inability to finance or sell new cars, which in turn would result in loss of parts and service revenue with the eventual elimination of the entire dealer organization and loss of jobs for its personnel and those of its suppliers.

The lifeblood of any automobile agency is new-car sales. The dealer's viability in the marketplace is predicated on a wide range

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of cars and trucks to compete head-on for new customers and increased market penetration. Although we are also in the parts, service, and used-car business, nothing starts in the retail automobile business without a new-car sale. At the dealership level, if the manufacturer were forced into reorganization through bankruptcy, the decrease in sales due to a lack of confidence in the product and the dealership could only result in the destruction of the dealer network, which would virtually foreclose any possibility that Chrysler could ever regain its viability in the future. This would mean the loss of hundreds of thousands of jobs as well as a reduction of competition in the domestic industry. In addition, this would mean that current Chrysler owners would be unable to rely on Chrysler dealers for their parts and servicing needs. In Illinois alone, there are over 750,000 such Chrysler Plymouth and Dodge car owners.

From the dealers' point of view, there has never been more confidence in any management team at Chrysler Corporation. We have experienced the elimination of the sales bank, new scheduling and distribution policies, better-quality products, improved dealer communications, and better parts and service support, along with the new advertising agency to tell our story to the public. In addition, the caliber of people who have joined the top management of Chrysler during its crisis is outstanding. As dealers, we know that without the competent leadership of Chrysler Corporation by

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Mr. Iacocca and his managers, our problems in the marketplace could have been even.

I have had the opportunity to review our future product plan and never in my fifteen years as a Chrysler Corporation dealer have I felt more confident that we do have the proper products for the future market. Our new K-body car will meet the demands of today's buyers with front wheel drive, superior gas mileage and increased passenger space. These and other future Chrysler products are truly the answer to the buyer's demands. But Chrysler needs additional funds to complete these models. Chrysler has sustained a tremendous expense in complying with federal emission standards and developing small, fuel-efficient cars. These models will sell if we can just get them into our showrooms. That is where we need your help.

It is for these reasons that I would urge the passage of the loan guarantee without delay. Thank you for allowing me to testify.

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November 12, 1979

Senator William Proxmire, Chairman
Committee on Banking, Housing and
Urban Affairs
United States Senate
Washington, D.C. 20510

Dear Senator Proxmire:

Thank you for the invitation to appear before this Committee to testify in the matter of providing loan guarantees to the Chrysler Corporation.

Until two months ago, I was the President and principal stockholder of Jack White, Inc., the largest Ford dealer in metropolitan Milwaukee. The corporation was formed in 1960 and I joined it as business manager in 1964. By 1965 we were Wisconsin's largest Ford dealer and held that position for ten years. We normally sold more than 6,000 cars and trucks per year.

In 1973 we diversified into the recreation vehicle business and became a major factor in retail sales of that type vehicle in the Wisconsin market. By 1977 total annual sales of the corporation exceeded 22 million dollars. In 1978 I was selected to attend a three day conference of the top 100 Ford dealers in the country, which incidentally, was also attended by Mr. Iacocca.

The first eight months of this year were hell on earth for our company as we were battered by the energy crunch and high interest rates (and a lot of Wisconsin snow). Many cost saving measures were taken, but our capital decreased to the point where it became obvious we would have to sell or face bankruptcy. We had sought additional capital through traditional sources, but because of the condition of our business and the uncertainty of the automobile and recreation vehicle industries, these sources refused to assist us. Ultimately we did sell at a tremendous loss to the stockholders. My feeling is that during the next year there will be many, many more automobile dealers faced with this same situation.

Two months after the disastrous sale, I can look at the experience more objectively with less emotion, and I truly believe that what we went through was a natural (although dramatic and traumatic) event caused by our free enterprise system cleansing itself - of a weakened corporation in this case.

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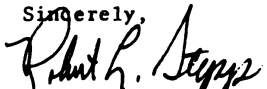
The free enterprise system must include the possibility to fail as well as to succeed--or it isn't free at all. Our system has been able to absorb huge failures in the past such as Penn Central, Studebaker and W.T. Grant Co. Having demonstrated this ability, what rationale can be used for rescuing the Chrysler Corporation? Is it the number of employees involved -- or is it a political decision rather than an economic decision?

The market place in our economic system provides the ultimate test for a product. The consumer makes the final decision as to whether or not the product is desirable, fills his needs and is properly priced. Therein, hinges success or failure.

The government did not come to my rescue and it shouldn't have; and I have no doubt, that during my history and that of Chrysler Corporation, I have paid a comparable, if not higher, percentage of my income in the form of taxes to the government than they have. I resent that the taxes I have paid might be used to help defeat the free enterprise system in America, and ask that you do all in your power to defeat the proposal.

Thank you again for the opportunity you have given me to express my views in this matter.

Sincerely,



Robert L. Stepp
2150 Highland Drive
Elm Grove, WI 53122

Mr. SWIFT. I compliment you all on your endurance, Senator Riegle, Senator Proxmire, Senator Garn.

The CHAIRMAN. And Senator Kassebaum.

Mr. SWIFT. Oh, yes. You're very small, but, I understand, very powerful.

Senator GARN. Senator Tower is here, too, I understand. [Laughter.]

The CHAIRMAN. We couldn't find a cushion for Senator Tower. [Laughter.]

Mr. SWIFT. I have been in the automobile retail business for 33 years, 17 of those years selling Ford products and 14 years in Sacramento as a Dodge dealer.

[Reading from statement.]

[See p. 741].

A lot of conversation is going on about the dealers people and where would they go if Chrylser fails.

[Reading from statement, page 2.]

[See p. 742].

Dealership facilities are single-purpose, which are not economically feasible to be modified for other uses.

Mr. SWIFT. I would like to go back at this point for a minute to try to give you some perspective on just how suddenly Chrysler's problems came upon them this year.

[Reading from statement, page 3.]

[See p. 743].

Today the northern California market is 78 percent imports and domestic subcompacts for car sales. The other thing we have to sell is the Omni/Horizon, the domestic subcompact model which is limited by the shortage of engines. And in California these cars have been nonexistent in California because of different California emission control laws.

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Since Chrysler's California dealers represent 10 percent of total Chrysler sales, and a much higher ratio of the profitable van, R.V., and truck sales, Chrysler's strength in the marketplace vanished overnight in California. As the gas scare spread to Washington and other parts of the country in June, Chrysler felt a severe national effect.

In fact, Mr. Wendell Miller, vice president of the National Automobile Association, in his remarks before the House subcommittee stated that he thought 80 percent would be broke within 6 months.

[Reading from statement, page 5.]

[See p. 745].

NADA, with 20,000 members, has also endorsed the loan guarantee for Chrysler. You met Mr. Iacocca this morning. I have met him. I have seen the future products. I met with all the members of the new management team, and I believe, given the opportunity, that they will succeed. I think you will have saved the U.S. taxpayers a lot of money. The loan guarantee program will cost you nothing, but it will preserve thousands of small independent businesses in many States and many more thousands their jobs.

Making this decision has got to be a tough problem. It has to be tough. But you have to deal with it today. The best minds in our business, including the Treasury Department and its financial analysts, believes that Chrysler can be successful. It is a risk, but Americans have always taken risks when the risks were worth taking. The risks with Chrysler are worth taking. You will preserve the American worker's job; you will preserve competition; and you will prevent huge Government costs.

Mr. SWIFT. Gentlemen, I thank you. And I will answer any questions.

The CHAIRMAN. Thank you, Mr. Swift.

Mr. Parrish.

Mr. PARRISH. I am Robert A. Parrish, president of the Parrish Motor Co., Great Bend, Kans. It is a city of 21,000 located in west central Kansas. Our Dodge dealership has been in operation since 1935.

[Reading from statement, page 1.]

[See p. 747].

A sales bank is kind of a slang term, and it means an ordering system that didn't work for sour apples, but the new truck and ordering system is in place now. The product quality is substantially improved, and Chrysler's management is improving communications with the dealers. In all of my experience, I do not remember any time when the dealers have had such confidence in management.

[Reading from statement, page 4.]

[See p. 750].

The CHAIRMAN. Thank you, sir.

Our next witness is Mr. Walsh.

Mr. WALSH. Mr. Chairman and members of the committee, I am Bill Walsh, a second-generation Chrysler Corp. dealer.

[Reading from statement, page 1.]

[See p. 752].

In the country there are over 17 million Chrysler products. If Chrysler were to go bankrupt, there would be an immediate effect on the value of all of the cars and trucks. It is for this reason that the loan guarantee is of primary importance.

[Reading from statement, page 3.]

[See p. 754].

We will be offering cars of over a length of 2 feet less and will weigh approximately 1,000 pounds less than our present full-size cars.

[Reading from statement, page 4.]

[See p. 755].

The CHAIRMAN. Thank you very much, Mr. Walsh.

Our final witness is Mr. Robert Stepp, from Milwaukee.

Mr. STEPP. Until 2 months ago I was the president and principal stockholder of Jack White, Inc., the largest Ford dealer in Metro-

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politan Milwaukee. The corporation was formed in 1960, and I joined it as business manager in 1964. By 1965, we were Wisconsin's largest Ford dealer and held that position for 10 years. We normally sold more than 6,000 cars and trucks per year.

[Reading from statement.]

[See p. 756].

My feeling is that during the next year there will be many, many more automobile dealers faced with this situation.

[Reading from statement.]

[See p. 756].

I am opposed to this proposal because our very own Government is being asked to help defeat our free enterprise system.

Thank you again for the opportunity of testifying.

The CHAIRMAN. Thank you, Mr. Stepp.

Mr. Stepp, did you know Mr. Iacocca? You said you were at that meeting as 1 of the 100 biggest Ford dealers in the country.

Mr. STEPP. I didn't know him personally, but I had the privilege of helping him address groups on many occasions.

The CHAIRMAN. He impressed me this morning as a remarkably able man. I thought he was one of the strongest personalities that I have seen. And he obviously is tremendously intelligent and well-informed.

Mr. STEPP. He certainly is.

The CHAIRMAN. Let me ask you about one facet of Mr. Iacocca's background. Did he have a reputation for meeting his projected sales targets at Ford?

Mr. STEPP. Mr. Iacocca has always been a tremendous salesman and as a salesman I think he is probably a little overly optimistic. If you aren't optimistic as a salesman, you are just never going to succeed. We always were given penetration schedules to meet that were the carrot in front of the rabbit bit. He did this with his own people. I would say he is overly optimistic.

The CHAIRMAN. Let me ask this first question of Mr. Swift and of the other Chrysler dealers, if they would like to comment also.

If you were failing by yourself—I am not talking about the failure of Chrysler, but your firm—should face a situation where you would have to go through a chapter 11 bankruptcy or fail, like Mr. Stepp's did, should the Government back you? Let me first ask Mr. Swift.

Mr. SWIFT. I am sorry, I picked up only part of it. Would you repeat the last part of it?

The CHAIRMAN. The question is: If you were failing—I am not talking about the Chrysler Corp., I am talking about your dealership failing, your business failing—do you think the Federal Government should go to your rescue?

FAILURE DUE TO CONTROLLED ENTERPRISE

Mr. SWIFT. I just got through saying I am an advocate of free enterprise. Mr. Proxmire, I don't believe that Chrysler is where they are by free enterprise. I believe Chrysler is there because of controlled enterprise. If I do fail in California, it will be because of California's strange and additional requirements besides the ones that the Federal Government has imposed on us. I wouldn't expect them to come and bail me out.

But I am not Chrysler, and I don't represent the lives of 150,000 employees. You see, I am one dealer, I am one small businessman. I am the biggest dealer they've got.

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The CHAIRMAN. When you say the criteria should be size, if you have a big firm, they should be bailed out; if you have a small firm, you should not?

Mr. SWIFT. That's not what I said. I said, anyway you look at it, Chrysler, regardless of the management mistakes, is in part of the cash position problem it is in today, not because it was a badly managed company, but because of current events, current circumstances, and unequal laws or unequal—or equal costs applied to unequal size companies.

I said to you that I don't think that they should bail me out. I only employ 136 people.

The CHAIRMAN. You were saying in your case it is not a matter of size entirely, although you apparently think that is a consideration, but also whether or not the bankruptcy is caused by Government action?

Mr. SWIFT. Yes.

The CHAIRMAN. You think in Chrysler it was caused by Government action?

Mr. SWIFT. A great deal of it.

The CHAIRMAN. Do you think these regulations hit paper companies, hit foundries, hit all kinds of them? Regulations affecting OSHA, regulations—environmental regulations and other regulations hit them very hard, and aren't there many cases where firms, marginal firms, are pushed over the brink because of Government regulations?

Mr. SWIFT. Yes.

The CHAIRMAN. Should they all be bailed out?

Mr. SWIFT. I just got through saying they shouldn't. The Federal law gave the Chrysler company 5 years to completely rebuild their complete line of cars and trucks, completely redo everything that they had to sell.

Now that is a different set of circumstances from this gentlemen or what you are asking me or even the laws of California which have restricted our earning capacity for years. Right now, we have no six-cylinder engine available in California to sell because of California emissions. We have no Omnis in our State, again because of California's different emission control.

But I still say you should not bail me out. But I will say this much. I say that Chrysler has a different set of circumstances. I think if you want me to put it bluntly, I think the Government put them there. I think, yes, the Government has a responsibility, and I think you are looking at not 136 employees, but you are looking at a tremendous number of businesses that will also fail if Chrysler fails.

The CHAIRMAN. You are saying you are a small businessman who is going bankrupt, but you should not be bailed out. But you think Chrysler, a large business, whose failure is caused in part by Government regulations and Government restrictions and Government requirements should be bailed out. Does that mean that every large business that is suffering from increased costs because of Government regulations should get a Government guarantee in the event they are on the brink of bankruptcy?

Mr. SWIFT. I think the question is to the degree of Government intervention. If you strangle them to death, you should consider

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helping recover their health. If you have only hurt them a little bit, then maybe you shouldn't. Management should be able to recover from that, but it is pretty difficult to have one hand tied behind you and go into a fist fight. It is very, very difficult when somebody keeps raising the ante and they put you past the 15 round limit. It is totally different.

The CHAIRMAN. What bothers me is this puts us into a dilemma, because we do have, rightly or wrongly as a matter of hard fact, extensive environmental regulations, safety regulations, and so forth, and they vary by industry, but they have a great burden on businesses. And if we are going to follow a policy of bailing out every big business that has been hit hard and had its costs increased and can make a case that Government restrictions and restraints put them there, it is going to be a colossal burden on the taxpayer, plust the fact that as you say, it contradicts the free enterprise system.

It is a profit and loss system. You not only make profits but you lose, and you have got to take the bitter with the sweet.

Mr. SWIFT. That is true, but Mr. Iacocca—you asked him again this morning, you asked him a question—where do you set the level of Government intervention? I think he gave you a pretty good answer. I will give it to you again.

When you tell them they must change their whole business in a period of 5 years and everything—that and all of the engineering costs, the research and development, you tell them they cannot share that costs with other companies until just recently, and they do not have the resources in the beginning to comply with that law, then it is a totally different circumstance from another company who has only been hurt by Government regulation.

The CHAIRMAN. Now, let me ask Mr. Parrish and Mr. Walsh and Mr. Stepp, too, if they would tell us in the remaining minute or two I have, would you feel that it would be reasonable if we are going to provide this enormous guarantee for the Chrysler Corp., that we require specific sacrifices of the people who would benefit from the guarantee?

PURCHASE OF CHRYSLER STOCK BY DEALERS

Now let me put it directly to you. Would each of you be willing, and do you think Chrysler dealers should be required, to buy a certain amount of Chrysler stock, common stock? We know that you desperately need additional equity.

If Chrysler is going to survive and make the kinds of contributions you should make, as much of this as possible should come from stock and not from a fixed charge with 15 percent interest which is going to be an enormous burden on the company.

Let me start off with Mr. Walsh.

Mr. WALSH. Senator Proxmire, I feel that the answer to that would have to be somewhat predicated on the timeliness of the loan guarantee, if in fact it does happen, simply because of the fact that the Chrysler Corp. dealers are part of Chrysler's responsibility financially at this point. Their cash flow to some extent will reflect our cash flow. There are certain payments due to the dealers at specific times.

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Really to narrow it down, I think everyone would be willing of the 4,700 Chrysler Corp. dealers—would be willing to step up and take their responsible purchase of stock in one way or another. However, I think that answer has to be somewhat qualified on the fact that this happens soon, because I think the dealers can be put in the financial jeopardy that the corporation is currently in.

The CHAIRMAN. That is a helpful answer, and I am delighted to hear it. But I do think that unless we provide something specific and definite—we don't just say do what they can do. You are not going to get the kind of purchase you might with 4,700 dealers. That is a tremendous market. You can't expect people to make a huge investment under these circumstances, but a reasonably modest investment of several thousand dollars from the 4,700 dealers, $1,000, is $47 million. Obviously, if they could make it $10,000, $50,000, whatever, it would be a great boon to the company and do this on the basis of volume or some other criteria which would be fair.

Let me ask Mr. Parrish.

Mr. PARRISH. Same question?

The CHAIRMAN. Yes, sir.

Mr. PARRISH. I would second, first of all, what Bill Walsh has just said. As of today, Chrysler Corp. owes the dealers obviously more money than Chrysler—or the dealers owe Chrysler Corp., so there is a cash flow problem there. When we are talking about the number of dealers involved and obviously I represent the very smallest dealers that Chrysler Corp. has—some of the dealers I would be talking about would have a total asset of $50,000 to $100,000 in the dealership now, you put the figure on would they be interested in investing $2,000 or $3,000 or something like that.

I think you did mention common stock. There has been some discussion of a preferred stock. The timing would be important. The amount would be important. There is no question in my mind——

The CHAIRMAN. $2,000 or $3,000 wouldn't do it.

Mr. PARRISH. That's right.

The CHAIRMAN. It would have to be more substantial than that. It would be reasonable for an average size dealer, for example, to invest, say, $50,000. Something like that would be, of course, a tremendous boon and would be ——

Mr. PARRISH. You are raising the question of the average-size dealer. I'm not sure what that means.

The CHAIRMAN. You'd have to do it on a pro rata basis. You could maybe invest $10,000 or maybe $25,000; if a big dealer, $100,000 or $250,000. It would have to be related, as I say, to the volume perhaps.

Mr. PARRISH. That would be a fair way to do it, to relate it to volume.

The CHAIRMAN. You think something like this might be well worth considering?

Mr. PARRISH. It would be. Chrysler has to look at all avenues to raise equity capital. We are all aware of that.

The CHAIRMAN. Mr. Swift, did you want to comment on it? My time is up.

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Mr. SWIFT. There is no question but what the dealers have again and again stood up and helped, and there is no reason why they would not again and again stand up and help because, in particular, I will go back to the California dealers. We have no place to go. It would be a little difficult for us to go to the Bank of America and borrow the funds before the loan guarantee is approved.

If the loan guarantee is approved, I don't think there is any question but you will raise substantial amounts of money from the dealers. The question is, how weak are they going to be before it occurs. Timing is everything.

I don't want to grind on this thing. I want to say one thing: There was an error in my prepared statement regarding State sales tax collected. Our State sales taxes last year, it was $2,360,000 we collected. I wish to hell I had made that much.

Chrysler today, as of last Monday, owed our dealership $400,000. Now I am a small businessman. I've got to tell you, there is no way I am going to get any money to put into stock until I get some of that money back. That is the situation with a great many dealers today. We will stand up for you and Chrysler 100 percent. I think I can commit that—what these two gentlemen have said we will do.

The CHAIRMAN. Thank you.

Senator Kassebaum?

Senator KASSEBAUM. I thank you, Mr. Chairman. I would like to follow on with that a little bit. From things I have read, the dealers have already made some sacrifices. I was going to ask what further suggestions you had, but you have already touched on that as far as asking for specific sacrifices that you had suggested. And I would go back, I think, to what I said this morning when I asked Mr. Iacocca about all of the employees sharing in the burden.

He said that he had done the best that he could do at the bargaining table, but I think that before we are willing to step in with a guaranteed loan, I myself feel there are other things that could be done. You felt there wasn't time, Senator Riegle, to do these things. But I think most of the taxpayers around the country would be more responsive to our giving assistance if the company itself—I think there are things we could do perhaps in meeting some requirements and waiving some regulations that could be of assistance if, in turn, the company was also willing to go further down the line than they have.

I don't see how the dealers can be expected to really make that—as you say, you have a cash flow problem.

Senator RIEGLE. Would you yield at that point?

Senator KASSEBAUM. Yes.

Senator RIEGLE. On my time.

Senator KASSEBAUM. Good.

Senator RIEGLE. So you don't lose your time. The problem is that things have gotten worse very quickly because of the high interest rates which all of the dealers have mentioned and the energy shocks and other things, so that suddenly the time frame has narrowed. I don't know how long a dealer at the table here who has $400,000 in outstanding debts and probably paying 15- to 18-percent interest right now or the other dealer can hold on, just to mention them.

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But the way they have drafted the loan guarantee legislation is to give the Secretary of the Treasury the authority to make the loans to mandate whatever arrangements can be worked out that are equitable and that squeeze the maximum fair contribution out of everybody. And he is also empowered, if that isn't done, not to make any loans.

All it does is to create the ability to respond. Now we are about to go out of session, and if we don't act on this thing, before we adjourn sometime in December—unless the Treasury Department has that authority to work on following suggestions you might make or Senator Heinz or anybody else—I think there is a very good chance we are not going to have the chance left anymore because these folks aren't going to be able to survive that long.

Senator KASSEBAUM. I understand what you are saying. On the other hand, what we are trying to do here is certainly make a decision, and part of making a decision on the Senate floor is trying to help answer questions that come from constituents around the country. And so we say "Well we are giving this authority to the Secretary of the Treasury." On the other hand, we are not sure what that would entail, and I just think that we have to be more specific here in regard to assurances we have of what would be done.

The CHAIRMAN. Mr. Swift wanted to comment.

STOPGAPS NEEDED IN LOAN GUARANTEE

Mr. SWIFT. Senator Kassebaum, I think that everyone understands yours, Mr. Proxmire's, Mr. Heinz 'concerns about being sure that there are enough stopgaps in this guarantee to see that the taxpayers are covered and to see that they are protected. I think, though, somewhere in here now you are going to have to weigh some things that are happening out there.

Let me kind of touch base with you a little bit, because I think this is most important. In today's newspaper, sales were down 43 percent for the first 10 days of the month. Last month, our dealership sold the smallest number of new cars and trucks retail in 1 month in this decade. This whole 10 years that have passed by. There are companies—and as this gentleman from the National Association of Manufacturers said, there are expenses that any prudent businessman can adjust, and he can adjust them quickly.

But you can't adjust to this kind of a loss of confidence that is occurring in our area of the country. Now obviously each area is different, but in our area of the country, you cannot adjust to those kinds of economic drops with the prevalent economic situation with the prevalent 17-percent interest, you can't—if we go through, if you go through all of the things—Mr. Heinz came with a hell of an idea, but it is impractical.

What investment broker would put his name on the line to underwrite a Chrysler stock sale today, with the potential liability that would lay there down the road? Now that is not my business. I don't know much about it. I own a few shares of company stock that I bought a heck of a lot higher than what they are talking about it going up to. It is the time frame now. It is just so—nobody is trying to kid you that this need is not immediate, it is——

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Senator KASSEBAUM. I would agree with you on that. But one of the other problems you mention is the great drop in sales. And I think—again, my question Mr. Iacocca, in questioning his economic assumptions this morning, the predictions that sales would increase from about 10.2 percent to 11-something percent is something that is rosey at best. We would all hope so, but I think perhaps that is a false assumption.

My fellow Kansan here would like answer that. Bob?

Mr. PARRISH. As an old time car salesman, there is nothing rational about the car business when you start putting the numbers through and forget it. I mean, it is a whole new ball game every morning. You use your best judgment, your experience, and you get kind of a gut feeling and you go. Very frankly, it is kind of like politics, folks.

The CHAIRMAN. Like politics?

Mr. PARRISH. Yes. You think you have the best information available, and you find the whole thing was wrong, and you go out here someplace on a little flyer, and boy that works out super. That is the way it is when we trade cars. But the cars we have got now are winners, and I am not kidding you.

The new Mirada is something else, and I am going to be able to deliver those at home for $7,000. That's with automatic transmission, air conditioning, and the whole load. So seriously, it is a fine car with a lot of eye appeal, and it will sell.

The K-cars are coming. We are completely ignored with our Omni/Horizon. I can't understand this. Everybody whoops it up on the GMX car. Big deal. We have been selling our stuff for 1½ years and we have got more of them coming—super products, good quality, no problems. But this whole thing we're up here for today is distasteful. It is to me, I can assure you. And whether we want to admit it or not, we can be as logical as we want and as practical as we want and philosophical as we want, but we have got a political problem.

I have also got a financial problem—you may not, but I do—on this particular case. If we get into nitpicking this thing from start to finish about this, that, and the other—I have not seen the administration's bill—the administration hesitated a little bit, and the House and Senate jumped in this thing, so there is no telling what we're going to see in the end.

I think that is what you all are going to have to fuss over, at least before you decide whether you want to vote for anything at all, right or wrong. It is going to be a lot different than what we expect.

The main thing, I think, as Chuck has mentioned, as Bill as mentioned, sales have been holding up in my dealership. Our business isn't off much, but we can't fool around. If that thing starts down where we are because people start thinking, "Is Chrysler going out", they are never going to come back. It is all gone. We are in trouble. We have got those expense every day. We have that payroll every day.

But the product is there. I don't think Mr. Iacocca is out of line at all with what he told you folks this morning. I kind of like Senator Riegle. I think he has done his homework and pretty well understands the problem. I appreciate that and thank you.

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Senator KASSEBAUM. I am appreciative of your testimony, as I am sure everybody is, because it is a problem that we all recognize is affecting not only Chrysler but many other people, indirectly as well as directly. Thank you.

The CHAIRMAN. Senator Riegle.

Senator RIEGLE. You yielded to me. I want to make sure if there is anything else you want to say that you don't feel that you are shut off on time.

Senator KASSEBAUM. No.

Senator RIEGLE. Let me just say, I wish the room were full of reporters and full of citizens, listening, because I think your part of the story is such an important part of the story. Yet it is going to be underreported and it is not sufficiently understood. And of course, we also have business on the Senate floor. A lot of our colleagues are tied up over there and they haven't had a chance to hear you.

Chrysler so often is described as a giant corporation, and here sit thousands of dealers like yourselves, across the country in all of the communities, having been in business for long periods of time. I know one of you said since 1935. And here we are with all of these owners of Chrysler cars out across the country. I think somebody said 17 million Chrysler vehicles on the road. And if somebody happens to be driving across country and they are going through Kansas, and they have need of repair of some kind, they really——

Senator KASSEBAUM. They will go to Bob Parrish.

Senator RIEGLE. We want to keep him open.

Mr. PARRISH. We are open on Saturday.

Senator RIEGLE. So when people from Michigan are on their way to or through that area they have a chance to stop and get service. What is ironic is that you are representative of a whole large group of people spread out all over the country, and you are caught in a bind, not of your own making. Not a thing you can do about it by yourself, because the problem is too big. There are many components out of your control. You don't have anything to do with the Iranian oil situation or the sudden increase in gas prices. You had nothing to do with Volcker's interest rate policy that has jacked the lending rate up to 18 percent.

You really haven't had anything to do with creating the recession that is setting in on us. You had nothing to do with the fact that Chrysler is a parent company that has to keep spending money right now to implement Government standards, even though the money is not coming through the cash drawer. Most of us voted for those laws.

And so, you are here, I think, to lay out a set of facts and you are saying, "Look, these problems are a lot bigger than we can cope with, and what we want is a chance to deal with them in a rational way. We want to be able to get through this period of adjustment that we have to go through."

The thing that is so frustrating, and I don't know whether the Congress will figure this out in time or not—here we sit with the Japanese, the Germans and the other foreign manufacturers with a 25-percent penetration in our market. It is about to go higher. They are going great guns. The second biggest deficit item in our balance

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of payment, motor vehicles, is $7 billion. This is hurting the value of the dollar, driving up the inflation rate and yet we have got a company that is 10 months away from being able to produce 1 million front-wheel-drive-4-cylinder-fuel-efficient cars. Those cars can fight off that foreign competition, and save fuel, helping to solve our basic energy problem.

TIME RUNNING OUT

And yet, time is running out on us. And here we are coming down to the end of this session. You know, we have got the energy legislation, and also SALT to consider. And suddenly, events have conspired so quickly and so dramatically that we are about to have over 4,000 dealers in the same situation that you have gone through.

And as painful as it is, I think I know from looking at your faces, that you would take no satisfaction out of seeing 4,000 other dealers have to go through the misery and the heartache that you have gone through and that your workforce has had to go through.

Mr. STEPP. No.

Senator RIEGLE. But if it is happening on that kind of a mass scale and if foreign companies are going to benefit, we are going to be exporting your jobs, and we are going to increase the budget cost to Government at a minimum if $2.5 billion. Actually, I think the figure is closer to $10 billion, once we are done dealing with all of the wreckage that will be caused.

It seems to me we have a pretty solid case for coming in and making a secured loan guarantee to help a major company make the transition. They have got new management in place. It is solid. I even heard you, who used to work for Ford, express confidence in Iacocca. He certainly brings experience and savvy to this assignment, as tough as it may be.

We have got a plan that everybody, including the outside financial community, who has looked at it thinks is a practical plan and that it can work. But it has got to have a chance to happen. What is so frustrating is that we say, well, we don't know if we want to do this, because, this is going to cause us to do something we have never done before?

Well, I hate to keep bringing it up but it is a fact of life, and of course you would know it, because you come from Wisconsin and that is where they have helped American Motors deal with these very same problems. We have helped in a variety of forms. We have given them waivers on laws, tax credits, and so forth, and they are healthy today. Here they are with a 1-percent market share, making money, because we have helped them.

Yet, we now want to draw the line and say here is a bigger company, same type of problems, but now we are going to draw the line and we say we are not going to help them. There is no valid reason for not helping them. So, let me just say this to you: I appreciate the fact that you are hanging in there, and I realize the problems are tough and I don't think that the people of America really want to bring this hardship down on the country.

I don't think people want to have 600,000 jobs disappear, and people knocked into unemployment. I don't think that is what the

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country wants. And it is obvious that it would not be good for the country.

The question is, will enough people here figure it out in time for us to be able to seize this opportunity, complete the modernization of the 10th largest company in the United States, bring on these new production facilities and produce these new cars and let this company survive and let us maintain these jobs—or do we have to do it the other way?

Do we have to say, "No. Tough luck," step away from it and then deal with this horrendous economic dislocation and backwash that is going to hit the entire United States. It is going to hit California; it is going to hit Kansas; it is going to hit Wisconsin; it is going to hit all over the place.

In any event, I think that you have presented excellent testimony today. All I can say to you is that I hope with the value of your testimony and others that we are going to get through to enough people around here, so that in the end we will make a practical decision that is good for the Unitod States and helps the country.

I appreciate the fact that you are hanging tough. And we will do what we can to try to get this task done at this end.

I want to ask a couple of things here, and that is, if Chrysler were to declare bankruptcy—some people still like that idea, those who haven't looked at it very closely—what happens at the retail end? How long before you fellows are out of business?

Mr. SWIFT. It would take us with it, put us in the same pot.

Senator RIEGLE. You're out of business, is the answer?

Mr. SWIFT. We run a customer traffic count. It is down 80 percent. We have a newspaper that is like the NAM. It is firmly convinced because it has reached the conclusion that Chrysler doesn't deserve the aid. So every bit of bad news the paper can put in there, he puts in daily, and it is pretty hefty. It is every day.

Senator RIEGLE. And this committee is partially responsible for it every time somebody here comes and piles in and finds the worst things they can say about Chrysler. Would you last 1 week, 2 weeks, if the headline was "Chrysler Goes Into Bankruptcy"? How long do you guys stay in operation? How many days or how many weeks?

Mr. SWIFT. I think that depends on how much you owe. If you owe enough, the bank is going to have to talk to you for awhile.

Senator RIEGLE. How long?

Mr. SWIFT. Who knows?

Senator RIEGLE. A short period.

Mr. SWIFT. I tell you one thing. How long they talk to you, that is not going to be the determining factor. When you don't have a live body come through the dealership it becomes an automatic morgue and a big mausoleum. It becomes exactly that, a mausoleum; 30 days.

Senator RIEGLE. You think it might take 30 days. What would you say in yours?

Mr. WALSH. I firmly believe it would probably be even quicker than that. I think the erosion in confidence by the potential buyer is right now what we are experiencing with the lack of floor traffic, as Chuck and Bob have mentioned. People just don't have confidence in the fact that they can come into our agency, buy an

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automobile and be sure that we are going to be there to service it. It is a big——

Senator RIEGLE. Maybe 1 week?

Mr. WALSH. If I can cite an example, flying in here I was next to a fellow who just bought a new car. Naturally, I was talking. He said, "I wanted to go look at the new Cordoba, because a friend of mine has one," and he was very impressed with it, mileage, good quality, good. But he said, "I was afraid to go and buy the car so I bought a new Oldsmobile."

I think that is what we are faced with right now, and that is why I think the expediency of the decision that could come from Congress is what is going to save us at the retail level.

Senator RIEGLE. Your answer is less than 30 days, I take it.

Mr. SWIFT. I think Chrysler's market drop today is not indicative. You know, you were talking about Mr. Iacocca's projections, as to whether they were real or not. The market drop is an unreal factor caused by just a continuous daily dose of Chrysler problems. You don't hear the 5 o'clock news without a blurb on it. You don't hear the 11 o'clock news or the weekend news from ABC without hearing about Chrysler's problems. I was interviewed by three television stations but my newspaper never even said I was in Washington 3 weeks ago to testify before the House subcommittee.

All you have to do is you can just bleed them so long, and that is what is happening to Chrysler today. They have good cars. Go ask the guy who owns one. Ask the people on the street, what would be their effect, what would you do? Would you buy a Chrysler car today? Given today's circumstances, that is your answer.

Senator RIEGLE. You wanted to say something? Your time is up, but I think you ought to have a chance to finish.

Mr. PARRISH. I can just see it hitting the news and you walk in the next morning and look at the expression on the people's face there, whether they are working there or not. And what are we supposed to be doing today? And somebody calling down and saying, "Are you still going to keep my service appointment?"

It would be absolute chaos. The interesting point would be you can sell anything at any price, so you have a new vehicle, you have an invoice, $6,000. Let's say you have to peddle that thing at $5,000. You have floored at the local bank for $6,000. There is going to be some discussion about that and you would be tied up immediately. They would bounce the drafts. The holdback wouldn't be coming back. It would clearly be gone, and it would be stopped outside of your dealership.

The dealership would never stand.

Senator RIEGLE. What were you going to say?

Mr. WALSH. One final point. That is the fact that we have been No. 3 in the industry for as long as I have been in the automobile business. No doubt we are going to remain there. The only thing is that I think you are looking at a No. 3 industry with 4,700 very good businessmen. We have learned how to operate our agencies profitably under these adverse conditions in years past, and I am confident that if Chrysler is given half of a chance, [illegible] Chrysler, Chrysler-2, the new management inside of that with that old name, if they are given half the chance [illegible]

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dent that the dealers will be able to take it over at the retail level and really perform for them with the new model automobiles.

One other point, to document that thought, is the fact that with all due respect to Senator Proxmire and Mr. White here, is that his agency is now owned by a Chrysler Corp. dealer.

The CHAIRMAN. Mr. Stepp. He owned the White, the Jack White Corp. It was under his leadership that it became the biggest dealer, Ford dealer in the State.

Gentlemen, I want to thank you very, very much. I think that you have made a fine record, and I think Senator Kassebaum and Senator Riegle have done an outstanding job in bringing out the material here.

The committee will stand in recess until tomorrow morning.

[Whereupon, at 5:43 p.m., the hearing was adjourned, to reconvene on November 16, 1979.]

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